ALFRED NZO

DISTRICT MUNICIPALITY

Alfred Nzo District Municipality
Financial statements
for the year ended 30 June 2020

General Information

Mayoral committee	
Executive Mayor	S Mehlomakulu
	P A Mohale (Deputy Executive Mayor)
	S Kulu (Speaker of Council)
	N Msokana (Chief Whip)
	S Cekeshe (MPAC Chairperson)
	K J Bosman
	P N Mankahla
	S Sello
	N Bongwana
	N N Nqoko
	V Mgoduka
	L Mcambalala
Councillors	B Betwayo
	N Cwele
	H N Dandala
	X Jona
	N T Langa
	N Langasiki
	W K Leballo
	N Ntshayisa
	F Mbuyelwa- Bewu
	M Mkhandaniso
	T P Motjope
	B L Mzimkhulu
	N L Ndamase
	V Ngesi
	N Njobe
	N B Nkomo
	L L Nqatsha
	CL Nxesi
	K S Pangwa
	W B Potwana
	F P Sontsi
	E Voko
	N F Sobazile
	L Nkula
	A I Guqaza
	N Pezisa
	P Stuurman
	N Ndabeni
Accounting Officer	Z H Sikhundla
Chief Financial Officer (CFO)	U P Mahlasela
Registered office	ERF 1400
	Ntsizwa Street
	Mount Ayliff
	4735
	Telephone +27(039) 254 5000

General Information

Business address	ERF 1400 Ntsizwa Street Mount Ayliff 4735
Postal address	Private Bag X511 Mount Ayliff 4735
Bankers	First National Bank of South Africa
Auditors	Auditor General of South Africa Registered Auditors 69 Frere Road Vincent East London 5204

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The reports and statements set out below comprise the financial statements presented to the municipality council:

COID	Compensation for Occupational Injuries and Diseases
UIF	Unemployment Insurance Fund
DBSA	Development Bank of South Africa
ANDA	Alfred Nzo Development Agency
GRAP	Generally Recognised Accounting Practice
EPWP	Expanded Public Works Programme
SDL	Staff Development Fund
IAS	International Accounting Standards
IMFO	Institute of Municipal Finance Officers
IPSAS	International Public Sector Accounting Standards
ME's	Municipal Entities
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)
PAYE	Pay as You Earn
PPE	Plant Property and Equipment
SARS	South African Revenue Services

Accounting Officer's Responsibilities and Approval

The accounting officer is required by the Municipal Finance Management Act (Act 56 of 2003), to maintain adequate accounting records and is responsible for the content and integrity of the financial statements and related financial information included in this report. It is the responsibility of the accounting officer to ensure that the financial statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are engaged to express an independent opinion on the financial statements and were given unrestricted access to all financial records and related data.

The financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

The financial statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The accounting officer acknowledges that he is ultimately responsible for the system of internal financial control established by the municipality and place considerable importance on maintaining a strong control environment. To enable the accounting officer to meet these responsibilities, the accounting officer sets standards for internal control aimed at reducing the risk of error or deficit in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the municipality and all employees are required to maintain the highest ethical standards in ensuring the municipality’s business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the municipality is on identifying, assessing, managing and monitoring all known forms of risk across the municipality. While operating risk cannot be fully eliminated, the municipality endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The accounting officer is of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or deficit.

The accounting officer has reviewed the municipality’s cash flow forecast for the year to 30 June 2021 and, in the light of this review and the current financial position, he is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

The municipality is largely dependent on the government for continued funding of operations. The financial statements are prepared on the basis that the municipality is a going concern and that the government has neither the intention nor the need to liquidate or curtail materially the scale of the municipality.

Although the accounting officer is primarily responsible for the financial affairs of the municipality, he is supported by the municipality's audit committee.

The Internal Auditors are responsible for independently reviewing and reporting on the municipality's financial statements.

In terms of Government Gazette No 43582, the Finance Minister stated in terms of section 177 (1) (b) of the Local Government : Municipal Finance Management Act of 2003 (Act No.56 of 2003), exempt municipalities and municipal entities from the provisions of that Act, as set out in the schedule.

Subject to the condition in paragraph 2 of the schedule, municipalities and municipal entities are exempted, for the 2019/20 financial year, from complying with the deadlines in sections 126 (1) and (2), 127 (1) and (2), (129) (1) and 133 (2) of the Local Government : Municipal Finance Management Act, 2003 (Act No 56 of 2003).

The condition is that, Municipalities and Municipal entities must comply with a provision referred to paragraph 1 of government gazette No 43582 within 2 months after the deadline in the applicable provision.

Accounting Officer's Responsibilities and Approval

The financial statements set out on pages 7 to 74, which have been prepared on the going concern basis, were authorised and duly signed by the accounting officer on 12 October 2020 .

Z H Sikhundla
Municipal Manager

Accounting Officer's Responsibilities and Approval

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Accounting Officer's Responsibilities and Approval

The financial statements set out on pages 7 to 73, which have been prepared on the going concern basis, were authorised and duly signed by the accounting officer on 12 October 2020 .

Z H Sikhundla
Municipal Manager

Accounting Officer's Report

The accounting officer submits his report for the year ended 30 June 2020.

1. Review of activities

Main business and operations

Net surplus of the municipality was R 458,876,377 (2019: surplus R 533,761,902).

2. Going concern

The financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

3. Subsequent events

The accounting officer is not aware of any matter or circumstance arising since the end of the financial year.

4. Corporate governance

General

The accounting officer is committed to business integrity, transparency and professionalism in all its activities. As part of this commitment, the accounting officer supports the highest standards of corporate governance and the ongoing development of best practice.

5. Interest in controlled entities

Details of the municipality's investment in controlled entities are set out in note 12.

Statement of Financial Position as at 30 June 2020

Figures in Rand	Note(s)	2020	2019 Restated*
Assets			
Current Assets			
Operating lease asset	2	-	24,799
Inventories	4	11,229,633	12,438,841
Receivables from exchange transactions	5	57,103,253	53,771,398
Receivables from non-exchange transactions	6	4,101,231	691,100
VAT receivable	7	10,057,662	19,678,934
Cash and cash equivalents	8	578,014,620	282,497,181
		660,506,399	**369,102,253**
Non-Current Assets			
Property, plant and equipment	9	4,236,966,387	3,930,885,998
Intangible assets	10	2,810,549	2,757,622
Heritage Assets	11	131,100	131,100
Investments in controlled entities	12	100	100
Investments	14	8,727,587	8,022,159
		4,248,635,723	**3,941,796,979**
Non-Current Assets		4,248,635,723	3,941,796,979
Current Assets		660,506,399	369,102,253
Total Assets		**4,909,142,122**	**4,310,899,232**
Liabilities			
Current Liabilities			
Operating lease liability	2	225,957	215,270
Unspent conditional grants and receipts	15	76,310,388	3
Provisions	16	30,224,963	23,704,078
Current Portion of Long Term Loan	17	6,926	770,706
Payables from Non Exchange Transactions	18	2,241,327	1,178,433
Payables from exchange transactions	19	166,970,087	107,619,677
Employee Benefit Obligation	20	1,296,000	665,078
		277,275,648	**134,153,245**
Non-Current Liabilities			
Long Term Loan	17	-	4,436,079
Employee Benefit Obligation	20	9,603,000	8,922,810
		9,603,000	**13,358,889**
Non-Current Liabilities		9,603,000	13,358,889
Current Liabilities		277,275,648	134,153,245
Total Liabilities		**286,878,648**	**147,512,134**
Assets		4,909,142,122	4,310,899,232
Liabilities		(286,878,648)	(147,512,134)
Net Assets		**4,622,263,474**	**4,163,387,098**
Accumulated surplus		4,622,263,474	4,163,387,098

* See Note 44

Alfred Nzo District Municipality
Financial Statements for the year ended 30 June 2020

Statement of Financial Performance for the Period Ended 30 June 2020

Figures in Rand	Note(s)	2020	2019 Restated*
Revenue			
Revenue from exchange transactions			
Service Charges	22	24,666,692	36,021,719
Rental of Facilities and Equipment	23	207,496	369,583
Other Income	24	1,174,378	2,812,165
Interest Received	25	45,362,429	38,857,409
Agency Services	26	328,787	221,502
Reversal of Provision for Impairment		-	-
Actuarial Gains		485,741	-
Total revenue from exchange transactions		**72,225,523**	**78,282,378**
Revenue from non-exchange transactions			
Transfer revenue			
Government Grants & Subsidies	27	1,017,729,452	1,038,098,210
		72,225,523	78,282,378
		1,017,729,452	1,038,098,210
Total Revenue	21	**1,089,954,975**	**1,116,380,588**
Expenditure			
Employee Related Costs	28	(275,729,909)	(245,014,197)
Remuneration of Councillors	29	(11,565,141)	(10,359,387)
Litigation Expenditure	30	(2,038,619)	(9,508,418)
Depreciation and Amortisation	31	(80,253,612)	(77,301,720)
Finance Costs	32	(359,383)	(739,343)
Lease Rentals on Operating Lease		(798,525)	(854,492)
Provision for Debt Impairment	33	(2,593,262)	(7,814,997)
Bulk Purchases	34	(8,624,476)	(8,910,629)
Contracted Services	35	(92,861,399)	(82,591,889)
Transfers and Subsidies	36	(17,826,087)	(17,395,425)
Actuarial Losses		-	(897,443)
Loss on Disposal		(82,862)	(1,240,265)
General Expenses	37	(138,345,323)	(119,990,481)
Total Expenditure		**(631,078,598)**	**(582,618,686)**
		-	-
Total revenue		1,089,954,975	1,116,380,588
Total expenditure		(631,078,598)	(582,618,686)
Operating surplus/deficit		-	-
		-	-
		-	-
Surplus before taxation		458,876,377	533,761,902
Taxation		-	-
Surplus For the Year		**458,876,377**	**533,761,902**

* See Note 44

Statement of Changes in Net Assets for the Period Ended 30 June 2020

Figures in Rand	Accumulated surplus	Total net assets
Balance at 01 July 2018	**3,621,532,916**	**3,621,532,916**
Changes in net assets		
Prior period error (Note Number 44)	6,555,193	6,555,193
Uploading Assets	1,537,087	1,537,087
Net income (losses) recognised directly in net assets	8,092,280	8,092,280
Surplus for the year	533,761,902	533,761,902
Total recognised income and expenses for the year	541,854,182	541,854,182
Total changes	541,854,182	541,854,182
Restated* Balance at 01 July 2019	**4,163,387,097**	**4,163,387,097**
Changes in net assets		
Surplus for the year	458,876,377	458,876,377
Total changes	458,876,377	458,876,377
Balance at 30 June 2020	**4,622,263,474**	**4,622,263,474**

Note(s)

* See Note 44

Cash Flow Statement for Period Ended 30 June 2020

Figures in Rand	Note(s)	2020	2019 Restated*
Cash flows from operating activities			
Receipts			
Service Charges		32,126,529	37,134,123
Other Receipts		1,710,661	3,403,250
Interest income		31,965,478	26,036,852
Government Grants and Subsidies		1,094,039,840	1,038,098,209
		1,159,842,508	1,104,672,434
Payments			
Employee costs		(275,729,909)	(245,014,194)
Suppliers		(213,705,064)	(229,951,340)
Finance costs		(504,321)	(807,020)
Remuneration of Councillors		(11,565,144)	(10,359,389)
		(501,504,438)	(486,131,943)
Total receipts		1,159,842,508	1,104,672,434
Total payments		(501,504,438)	(486,131,943)
Net cash flows from operating activities	39	**658,338,070**	**618,540,491**
Cash flows from investing activities			
Purchase of property, plant and equipment	9	(357,524,522)	(428,946,223)
Purchase of other intangible assets	10	-	(301,890)
Purchase of financial assets		(705,428)	(703,500)
Proceeds from sale of other asset 3		895,693	-
Net cash flows from investing activities		**(357,334,257)**	**(429,951,613)**
Cash flows from financing activities			
Movement in long term loan		(5,486,377)	(2,347,256)
Net increase/(decrease) in cash and cash equivalents		**295,517,436**	**186,241,622**
Cash and cash equivalents at the beginning of the year		282,497,181	96,255,559
Cash and cash equivalents at the end of the year	8	**578,014,617**	**282,497,181**

* See Note 44

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Statement of Financial Performance						
Revenue						
Revenue from exchange transactions						
Service charges	57,142,277	(7,355,073)	**49,787,204**	24,666,692	**(25,120,512)**	a)
Rental of facilities and equipment	535,309	(338,591)	**196,718**	207,496	**10,778**	b)
Agency services	-	-	**-**	328,787	**328,787**	c)
Reserves	90,000,000	-	**90,000,000**	-	**(90,000,000)**	d)
Other income	2,251,312	1,021,312	**3,272,624**	1,174,378	**(2,098,246)**	e)
Interest received - investment	29,700,110	-	**29,700,110**	45,362,429	**15,662,319**	f)
Total revenue from exchange transactions	**179,629,008**	**(6,672,352)**	**172,956,656**	**71,739,782**	**(101,216,874)**	
Revenue from non-exchange transactions						
Transfer revenue						
Government grants & subsidies	1,139,593,000	(10,122,000)	**1,129,471,000**	1,017,729,452	**(111,741,548)**	g)
'Total revenue from exchange transactions'	179,629,008	(6,672,352)	**172,956,656**	71,739,782	**(101,216,874)**	
'Total revenue from non-exchange transactions'	1,139,593,000	(10,122,000)	**1,129,471,000**	1,017,729,452	**(111,741,548)**	
Total revenue	**1,319,222,008**	**(16,794,352)**	**1,302,427,656**	**1,089,469,234**	**(212,958,422)**	
Expenditure						
Employee Related Cost	(275,730,163)	(420,576)	**(276,150,739)**	(275,729,909)	**420,830**	h)
Remuneration of councillors	(12,064,000)	324,382	**(11,739,618)**	(11,565,141)	**174,477**	i)
Litigation Expenditure	-	(2,038,619)	**(2,038,619)**	(2,038,619)	**-**	
Depreciation and amortisation	(90,000,000)	-	**(90,000,000)**	(80,253,612)	**9,746,388**	j)
Finance costs	(500,000)	100,000	**(400,000)**	(359,383)	**40,617**	k)
Lease rentals on operating lease	-	(798,525)	**(798,525)**	(798,525)	**-**	
Debt Impairment	(30,000,000)	3,000,000	**(27,000,000)**	(2,593,262)	**24,406,738**	l)
Bulk purchases	(6,000,000)	(2,700,000)	**(8,700,000)**	(8,624,476)	**75,524**	m)
Contracted Services	(54,610,312)	(85,152,186)	**(139,762,498)**	(92,861,399)	**46,901,099**	n)
Transfers and Subsidies	(20,000,000)	(500,000)	**(20,500,000)**	(17,826,087)	**2,673,913**	o)
General Expenses	(242,515,504)	85,362,676	**(157,152,828)**	(138,345,323)	**18,807,505**	p)
Total expenditure	**(731,419,979)**	**(2,822,848)**	**(734,242,827)**	**(630,995,736)**	**103,247,091**	
	1,319,222,008	(16,794,352)	**1,302,427,656**	1,089,469,234	**(212,958,422)**	
	(731,419,979)	(2,822,848)	**(734,242,827)**	(630,995,736)	**103,247,091**	
Operating surplus	**587,802,029**	**(19,617,200)**	**568,184,829**	**458,473,498**	**(109,711,331)**	
Actuarial gains/losses	-	-	**-**	485,741	**485,741**	q)
Loss on non-current assets held for sale or disposal groups	-	(67,605)	**(67,605)**	(82,862)	**(15,257)**	r)
	-	**(67,605)**	**(67,605)**	**402,879**	**470,484**	
	587,802,029	(19,617,200)	**568,184,829**	458,473,498	**(109,711,331)**	
	-	(67,605)	**(67,605)**	402,879	**470,484**	
Surplus	**587,802,029**	**(19,684,805)**	**568,117,224**	**458,876,377**	**(109,240,847)**	
Capex	579,459,350	(18,464,950)	**560,994,400**	369,441,932	**(191,552,468)**	
Surplus	587,802,029	(19,684,805)	**568,117,224**	458,876,377	**(109,240,847)**	

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Capex	579,459,350	(18,464,950)	**560,994,400**	385,993,779	**(175,000,621)**	
Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement	**8,342,679**	**(1,219,855)**	**7,122,824**	**72,882,598**	**65,759,774**	

Reconciliation

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference

a) **Service charges** are under- collected due to the reduction in the number of billed customers as a result of the implementation of the indigent's policy. The scarcity or non- availability of water also contributed to less revenue. Furthermore towards the end of the financial year, from April 2020, most of the government departments, businesses and schools were closed and had not been using water and therefore were billed less than usual resulting in the reduction in revenue for the period.

b) **Rental of facilities and equipmen**t - A tenant that had given a notice to move out of one of the Municipal properties extended its period of stay resulting in more rental revenue than anticipated.

c) **Agency services** is commission charged by the municipality on garnishee orders and other employee deductions done on behalf of third parties. This was budgeted under other income but later separated from the other income to comply with GRAP.

d) **Reserves** are a non - cash item that covers the budgeted depreciation for the year and as such it has a nil effect as it is balanced out by another non cash item, depreciation.

e) **Other income**. This includes, a major contributor, the sale of tender documents, fees charged for property clearances, hiring out of facilities and other sundry charges. During the financial year less tender documents were sold. Most of the activity is usually in the last months of the financial year where procurement plan for the next financial year is being implemented, due to the lockdown there were less tenders sold.

f) **Interest earned** is more than what was budgeted for due to the improved cash balance achieved by the municipality and the implementation of the investment policy.

g) **Government grants**- **and subsidies** - Were underspent, this is due to the lockdown where activities in most contracts or projects had to be halted. The municipality has applied for roll over for all the unspent funds.

h) **Employee Related Costs**- Expenditure is less due to less travel as a result of COVID-19 lockdown.

i) **Remuneration of councilors**- The over budget is due to less travel as a result of COVID-19 lockdown.

j) **Depreciation -** Fewer projects were capitalised than anticipated hence the lower depreciation expense.

k) **Finance cost** - This is slightly over budget due to early settlement that was done on loan.

l) **Debt Impairment**- Consumers paid more than what the municipality had anticipated hence lower actual provision. This is a result of implementing the municipality's credit control and debt collection policy.

m) **Bulk purchases** - The under expenditure is due to DWA bulk water meters that were not working.
n) **Contracted services** are budgeted for under repairs and maintenance, security services and other contracted service under general expenses.

o)**Transfers and subsidies** - The over budget is attributable to Value Added Tax which is excluded on the actual expense vote.

p) **General Expenses** - under spending is due to the continued compliance with circular 82 of the MFMA on cost containment measures. The other underspending is due to the fact that some events and projects could not be done due to the lock down.
q) **Actuarial Gain** -This is a valuation done by the Actuarials, the provison is an estimate of the long service award based on historical staff turnover.
r) **Loss on disposal of assets** - This is due to assets that were derecognised during the year.

Accounting Policies

1. Basis of Preparation and Presentation of Financial Statements

The Annual financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP), issued by the Accounting Standards Board in accordance with Section 122(3) of the Municipal Finance Management Act (Act 56 of 2003), including any interpretation, guidelines and directives issued by the Accounting Standards Board.

These financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention as the basis of measurement, unless specified otherwise. They are presented in South African Rand.

A summary of the significant accounting policies, which have been consistently applied in the preparation of these financial statements, are disclosed below.

1.1 Presentation currency

These financial statements are presented in South African Rand, which is the functional currency of the municipality.

1.2 Going concern assumption

These financial statements have been prepared based on the expectation that the municipality will continue to operate as a going concern for at least the next 12 months.

1.3 Materiality

Material omissions or misstatements of items are material if they could, individually or collectively, influence the decisions or assessments of users made on the basis of the financial statements. Materiality depends on the nature or size of the omission or misstatement judged in the surrounding circumstances. The nature or size of the information item, or a combination of both, could be the determining factor.

Assessing whether an omission or misstatement could influence decisions of users, and so be material, requires consideration of the characteristics of those users. The Framework for the Preparation and Presentation of Financial Statements states that users are assumed to have a reasonable knowledge of government, its activities, accounting and a willingness to study the information with reasonable diligence. Therefore, the assessment takes into account how users with such attributes could reasonably be expected to be influenced in making and evaluating decisions.

1.4 Significant judgements and sources of estimation uncertainty

In preparing the financial statements, management is required to make estimates and assumptions that affect the amounts represented in the financial statements and related disclosures. Use of available information and the application of judgement is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the financial statements. Significant judgements include:

1.5 Property, plant and equipment

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one period.

The cost of an item of property, plant and equipment is recognised as an asset when:

- it is probable that future economic benefits or service potential associated with the item will flow to the municipality; and
- the cost of the item can be measured reliably.

Property, plant and equipment is initially measured at cost.

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost.

Where an asset is acquired through a non-exchange transaction, its cost is its fair value as at date of acquisition.

1.5 Property, plant and equipment (continued)

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, it's deemed cost is the carrying amount of the asset(s) given up.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is also included in the cost of property, plant and equipment, where the entity is obligated to incur such expenditure, and where the obligation arises as a result of acquiring the asset or using it for purposes other than the production of inventories.

Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Items such as spare parts, standby equipment and servicing equipment are recognised when they meet the definition of property, plant and equipment.

Major inspection costs which are a condition of continuing use of an item of property, plant and equipment and which meet the recognition criteria above are included as a replacement in the cost of the item of property, plant and equipment. Any remaining inspection costs from the previous inspection are derecognised.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses. Assets under construction are carried at cost. Depreciation commences when asset is ready and available for use as intended by management.

Property, plant and equipment are depreciated on the straight line basis over their expected useful lives to their estimated residual value.

The useful lives of items of property, plant and equipment have been assessed as follows:

Item	Depreciation method	Average useful life
Buildings	Straight line	10-40
Plant and machinery	Straight line	2-20
Furniture and fixtures	Straight line	2-20
Motor vehicles	Straight line	4-10
Office equipment	Straight line	2-20
Infrastructure- Sanitation	Straight line	2-85
Infrastructure -Water	Straight line	2-100
Infastructure- Roads	Straight line	5-15
Bins and Containers	Straight line	5-10
Computer Equipment	Straight line	2-10
Emergency Equiment	Straight line	2-15
Park Homes	Straight line	20-40
Specialised Vehicles	Straight line	5-15
Land		Unlimited

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

1.5 Property, plant and equipment (continued)

The depreciation method used reflects the pattern in which the asset's future economic benefits or service potential are expected to be consumed by the municipality. The depreciation method applied to an asset is reviewed at least at each reporting date and, if there has been a significant change in the expected pattern of consumption of the future economic benefits or service potential embodied in the asset, the method is changed to reflect the changed pattern. Such a change is accounted for as a change in an accounting estimate.

The municipality assesses at each reporting date whether there is any indication that the municipality expectations about the residual value and the useful life of an asset have changed since the preceding reporting date. If any such indication exists, the municipality revises the expected useful life and/or residual value accordingly. The change is accounted for as a change in an accounting estimate.

The depreciation charge for each period is recognised in surplus or deficit unless it is included in the carrying amount of another asset.

Items of property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

Assets which the municipality holds for rentals to others and subsequently routinely sell as part of the ordinary course of activities, are transferred to inventories when the rentals end and the assets are available-for-sale. Proceeds from sales of these assets are recognised as revenue. All cash flows on these assets are included in cash flows from operating activities in the cash flow statement.

The municipality separately discloses expenditure to repair and maintain property, plant and equipment in the notes to the financial statements (see note 35).

The municipality discloses relevant information relating to assets under construction or development, in the notes to the financial statements (see note 9).

1.6 Intangible assets

An asset is identifiable if it either:

- is separable, i.e. is capable of being separated or divided from an entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, identifiable assets or liability, regardless of whether the entity intends to do so; or
- arises from binding arrangements (including rights from contracts), regardless of whether those rights are transferable or separable from the municipality or from other rights and obligations.

A binding arrangement describes an arrangement that confers similar rights and obligations on the parties to it as if it were in the form of a contract.

An intangible asset is recognised when:

- it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the municipality; and
- the cost or fair value of the asset can be measured reliably.

The municipality assesses the probability of expected future economic benefits or service potential using reasonable and supportable assumptions that represent management's best estimate of the set of economic conditions that will exist over the useful life of the asset.

Where an intangible asset is acquired through a non-exchange transaction, its initial cost at the date of acquisition is measured at its fair value as at that date.

Expenditure on research (or on the research phase of an internal project) is recognised as an expense when it is incurred.

Intangible assets are carried at cost less any accumulated amortisation and any impairment losses.

1.6 Intangible assets (continued)

An intangible asset is regarded as having an indefinite useful life when, based on all relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows or service potential. Amortisation is not provided for these intangible assets, but they are tested for impairment annually and whenever there is an indication that the asset may be impaired. For all other intangible assets amortisation is provided on a straight line basis over their useful life.

The amortisation period and the amortisation method for intangible assets are reviewed at each reporting date.

Reassessing the useful life of an intangible asset with a finite useful life after it was classified as indefinite is an indicator that the asset may be impaired. As a result the asset is tested for impairment and the remaining carrying amount is amortised over its useful life.

Internally generated goodwill is not recognised as an intangible asset.

Amortisation is provided to write down the intangible assets, on a straight line basis, to their residual values as follows:

Item	Depreciation method	Average useful life
Computer software	Straight line	2-5

The municipality discloses relevant information relating to assets under construction or development, in the notes to the financial statements (see note 10).

1.7 Heritage assets

Assets are resources controlled by an municipality as a result of past events and from which future economic benefits or service potential are expected to flow to the municipality.

Carrying amount is the amount at which an asset is recognised after deducting accumulated impairment losses.

Class of heritage assets means a grouping of heritage assets of a similar nature or function in an municipality's operations that is shown as a single item for the purpose of disclosure in the financial statements.

Cost is the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition or construction or, where applicable, the amount attributed to that asset when initially recognised in accordance with the specific requirements of other Standards of GRAP.

Depreciation is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Heritage assets are assets that have a cultural, environmental, historical, natural, scientific, technological or artistic significance and are held indefinitely for the benefit of present and future generations.

An impairment loss of a non-cash-generating asset is the amount by which the carrying amount of an asset exceeds its recoverable service amount.

An inalienable item is an asset that an municipality is required by law or otherwise to retain indefinitely and cannot be disposed of without consent.

Recoverable service amount is the higher of a non-cash-generating asset's fair value less costs to sell and its value in use.

Value in use of a non-cash-generating asset is the present value of the asset's remaining service potential.

1.7 Heritage assets (continued)

Recognition

The municipality recognises a heritage asset as an asset if it is probable that future economic benefits or service potential associated with the asset will flow to the municipality, and the cost or fair value of the asset can be measured reliably.

Initial measurement

Heritage assets are measured at cost.

Where a heritage asset is acquired through a non-exchange transaction, its cost is measured at its fair value as at the date of acquisition.

1.8 Investments in controlled entities

In the municipality's separate financial statements, investments in controlled entities are carried at cost.

The municipality applies the same accounting for each category of investment.

The municipality recognises a dividend or similar distribution in surplus or deficit in its separate financial statements when its right to receive the dividend or similar distribution is established.

Investments in controlled entities that are accounted for in accordance with the accounting policy on Financial instruments in the consolidated financial statements, are accounted for in the same way in the controlling entity's separate financial statements.

1.9 Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or a residual interest of another entity.

The amortised cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, and minus any reduction (directly or through the use of an allowance account) for impairment or uncollectibility.

A concessionary loan is a loan granted to or received by an entity on terms that are not market related.

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

Derecognition is the removal of a previously recognised financial asset or financial liability from an entity's statement of financial position.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, an entity shall estimate cash flows considering all contractual terms of the financial instrument (for example, prepayment, call and similar options) but shall not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate (see the Standard of GRAP on Revenue from Exchange Transactions), transaction costs, and all other premiums or discounts. There is a presumption that the cash flows and the expected life of a group of similar financial instruments can be estimated reliably. However, in those rare cases when it is not possible to reliably estimate the cash flows or the expected life of a financial instrument (or group of financial instruments), the entity shall use the contractual cash flows over the full contractual term of the financial instrument (or group of financial instruments).

1.9 Financial instruments (continued)

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable willing parties in an arm’s length transaction.

A financial asset is:
- cash;
- a residual interest of another entity; or
- a contractual right to:
  - receive cash or another financial asset from another entity; or
  - exchange financial assets or financial liabilities with another entity under conditions that are potentially favourable to the entity.

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

A financial liability is any liability that is a contractual obligation to:
- deliver cash or another financial asset to another entity; or
- exchange financial assets or financial liabilities under conditions that are potentially unfavourable to the entity.

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Liquidity risk is the risk encountered by an entity in the event of difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

Loan commitment is a firm commitment to provide credit under pre-specified terms and conditions.

Loans payable are financial liabilities, other than short-term payables on normal credit terms.

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and other price risk.

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

A financial asset is past due when a counterparty has failed to make a payment when contractually due.

A residual interest is any contract that manifests an interest in the assets of an entity after deducting all of its liabilities. A residual interest includes contributions from owners, which may be shown as:
- equity instruments or similar forms of unitised capital;
- a formal designation of a transfer of resources (or a class of such transfers) by the parties to the transaction as forming part of an entity’s net assets, either before the contribution occurs or at the time of the contribution; or
- a formal agreement, in relation to the contribution, establishing or increasing an existing financial interest in the net assets of an entity.

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability. An incremental cost is one that would not have been incurred if the entity had not acquired, issued or disposed of the financial instrument.

Financial instruments at amortised cost are non-derivative financial assets or non-derivative financial liabilities that have fixed or determinable payments, excluding those instruments that:
- the entity designates at fair value at initial recognition; or
- are held for trading.

Financial instruments at cost are investments in residual interests that do not have a quoted market price in an active market, and whose fair value cannot be reliably measured.

1.9 Financial instruments (continued)

Classification

The entity has the following types of financial assets (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

Class	Category
Unlisted Investments	Financial asset measured at amortised cost
Investments in Fixed Deposits	Financial asset measured at fair value
Long Term Receivables	Financial asset measured at amortised cost
Receivables from exchange Transactions	Financial asset measured at amortised cost
Cash and Cash Equivalents- Call Deposits	Financial asset measured at armotised cost
Cash and Cash Equivalents	Financial asset measured at armotised cost

The entity has the following types of financial liabilities (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

Class	Category
Long Term Liabilities	Financial Liability measured at armotised cost
Payables	Financial liability measured at amortised cost

Initial recognition

The entity recognises a financial asset or a financial liability in its statement of financial position when the entity becomes a party to the contractual provisions of the instrument.

The entity recognises financial assets using trade date accounting.

Initial measurement of financial assets and financial liabilities

The entity measures a financial asset and financial liability initially at its fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

The entity measures a financial asset and financial liability initially at its fair value [if subsequently measured at fair value].

The entity first assesses whether the substance of a concessionary loan is in fact a loan. On initial recognition, the entity analyses a concessionary loan into its component parts and accounts for each component separately. The entity accounts for that part of a concessionary loan that is:

- a social benefit in accordance with the Framework for the Preparation and Presentation of Financial Statements, where it is the issuer of the loan; or
- non-exchange revenue, in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers), where it is the recipient of the loan.

1.9 Financial instruments (continued)

Subsequent measurement of financial assets and financial liabilities

The entity measures all financial assets and financial liabilities after initial recognition using the following categories:

- Financial instruments at fair value.
- Financial instruments at amortised cost.
- Financial instruments at cost.

All financial assets measured at amortised cost, or cost, are subject to an impairment review.

Fair value measurement considerations

The best evidence of fair value is quoted prices in an active market. If the market for a financial instrument is not active, the entity establishes fair value by using a valuation technique. The objective of using a valuation technique is to establish what the transaction price would have been on the measurement date in an arm's length exchange motivated by normal operating considerations. Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties, if available, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models. If there is a valuation technique commonly used by market participants to price the instrument and that technique has been demonstrated to provide reliable estimates of prices obtained in actual market transactions, the entity uses that technique. The chosen valuation technique makes maximum use of market inputs and relies as little as possible on entity-specific inputs. It incorporates all factors that market participants would consider in setting a price and is consistent with accepted economic methodologies for pricing financial instruments. Periodically, an municipality calibrates the valuation technique and tests it for validity using prices from any observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on any available observable market data.

The fair value of a financial liability with a demand feature (e.g. a demand deposit) is not less than the amount payable on demand, discounted from the first date that the amount could be required to be paid.

Reclassification

The entity does not reclassify a financial instrument while it is issued or held unless it is:

- combined instrument that is required to be measured at fair value; or
- an investment in a residual interest that meets the requirements for reclassification.

Where the entity cannot reliably measure the fair value of an embedded derivative that has been separated from a host contract that is a financial instrument at a subsequent reporting date, it measures the combined instrument at fair value. This requires a reclassification of the instrument from amortised cost or cost to fair value.

If fair value can no longer be measured reliably for an investment in a residual interest measured at fair value, the entity reclassifies the investment from fair value to cost. The carrying amount at the date that fair value is no longer available becomes the cost.

If a reliable measure becomes available for an investment in a residual interest for which a measure was previously not available, and the instrument would have been required to be measured at fair value, the entity reclassifies the instrument from cost to fair value.

Gains and losses

A gain or loss arising from a change in the fair value of a financial asset or financial liability measured at fair value is recognised in surplus or deficit.

For financial assets and financial liabilities measured at amortised cost or cost, a gain or loss is recognised in surplus or deficit when the financial asset or financial liability is derecognised or impaired, or through the amortisation process.

Impairment and uncollectibility of financial assets

The entity assesses at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired.

1.9 Financial instruments (continued)

Financial assets measured at amortised cost:

If there is objective evidence that an impairment loss on financial assets measured at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced directly OR through the use of an allowance account. The amount of the loss is recognised in surplus or deficit.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed directly OR by adjusting an allowance account. The reversal does not result in a carrying amount of the financial asset that exceeds what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in surplus or deficit.

Financial assets measured at cost:

If there is objective evidence that an impairment loss has been incurred on an investment in a residual interest that is not measured at fair value because its fair value cannot be measured reliably, the amount of the impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed.

1.9 Financial instruments (continued)

Derecognition

Financial assets

The entity derecognises financial assets using trade date accounting.

The entity derecognises a financial asset only when:
- the contractual rights to the cash flows from the financial asset expire, are settled or waived;
- the entity transfers to another party substantially all of the risks and rewards of ownership of the financial asset; or
- the entity, despite having retained some significant risks and rewards of ownership of the financial asset, has transferred control of the asset to another party and the other party has the practical ability to sell the asset in its entirety to an unrelated third party, and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer. In this case, the entity :
  - derecognise the asset; and
  - recognise separately any rights and obligations created or retained in the transfer.

The carrying amounts of the transferred asset are allocated between the rights or obligations retained and those transferred on the basis of their relative fair values at the transfer date. Newly created rights and obligations are measured at their fair values at that date. Any difference between the consideration received and the amounts recognised and derecognised is recognised in surplus or deficit in the period of the transfer.

If the entity transfers a financial asset in a transfer that qualifies for derecognition in its entirety and retains the right to service the financial asset for a fee, it recognise either a servicing asset or a servicing liability for that servicing contract. If the fee to be received is not expected to compensate the entity adequately for performing the servicing, a servicing liability for the servicing obligation is recognised at its fair value. If the fee to be received is expected to be more than adequate compensation for the servicing, a servicing asset is recognised for the servicing right at an amount determined on the basis of an allocation of the carrying amount of the larger financial asset.

If, as a result of a transfer, a financial asset is derecognised in its entirety but the transfer results in the entity obtaining a new financial asset or assuming a new financial liability, or a servicing liability, the entity recognise the new financial asset, financial liability or servicing liability at fair value.

On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received is recognised in surplus or deficit.

If the transferred asset is part of a larger financial asset and the part transferred qualifies for derecognition in its entirety, the previous carrying amount of the larger financial asset is allocated between the part that continues to be recognised and the part that is derecognised, based on the relative fair values of those parts, on the date of the transfer. For this purpose, a retained servicing asset is treated as a part that continues to be recognised. The difference between the carrying amount allocated to the part derecognised and the sum of the consideration received for the part derecognised is recognised in surplus or deficit.

If a transfer does not result in derecognition because the entity has retained substantially all the risks and rewards of ownership of the transferred asset, the entity continues to recognise the transferred asset in its entirety and recognise a financial liability for the consideration received. In subsequent periods, the entity recognises any revenue on the transferred asset and any expense incurred on the financial liability. Neither the asset, and the associated liability nor the revenue, and the associated expenses are offset.

Financial liabilities

The entity removes a financial liability (or a part of a financial liability) from its statement of financial position when it is extinguished — i.e. when the obligation specified in the contract is discharged, cancelled, expires or waived.

An exchange between an existing borrower and lender of debt instruments with substantially different terms is accounted for as having extinguished the original financial liability and a new financial liability is recognised. Similarly, a substantial modification of the terms of an existing financial liability or a part of it is accounted for as having extinguished the original financial liability and having recognised a new financial liability.

1.9 Financial instruments (continued)

The difference between the carrying amount of a financial liability (or part of a financial liability) extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in surplus or deficit. Any liabilities that are waived, forgiven or assumed by another entity by way of a non-exchange transaction are accounted for in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers).

Presentation

Interest relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

Dividends or similar distributions relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

Losses and gains relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

Distributions to holders of residual interests are recognised by the entity directly in net assets. Transaction costs incurred on residual interests are accounted for as a deduction from net assets. Income tax [where applicable] relating to distributions to holders of residual interests and to transaction costs incurred on residual interests are accounted for in accordance with the International Accounting Standard on Income Taxes.

A financial asset and a financial liability are only offset and the net amount presented in the statement of financial position when the entity currently has a legally enforceable right to set off the recognised amounts and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

In accounting for a transfer of a financial asset that does not qualify for derecognition, the entity does not offset the transferred asset and the associated liability.

1.10 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

When a lease includes both land and buildings elements, the entity assesses the classification of each element separately.

Operating leases - lessor

Operating lease revenue is recognised as revenue on a straight-line basis over the lease term.

Initial direct costs incurred in negotiating and arranging operating leases are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the lease revenue.

The aggregate cost of incentives is recognised as a reduction of rental revenue over the lease term on a straight-line basis.

The aggregate benefit of incentives is recognised as a reduction of rental expense over the lease term on a straight-line basis.

Income for leases is disclosed under revenue in statement of financial performance.

Operating leases - lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability.

1.11 Inventories

Inventories are initially measured at cost except where inventories are acquired through a non-exchange transaction, then their costs are their fair value as at the date of acquisition.

Subsequently inventories are measured at the lower of cost and net realisable value.

Inventories are measured at the lower of cost and current replacement cost where they are held for;
- distribution at no charge or for a nominal charge; or
- consumption in the production process of goods to be distributed at no charge or for a nominal charge.

Net realisable value is the estimated selling price in the ordinary course of operations less the estimated costs of completion and the estimated costs necessary to make the sale, exchange or distribution.

Current replacement cost is the cost the municipality incurs to acquire the asset on the reporting date.

The cost of inventories comprises of all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

The cost of inventories is assigned using the formula. The same cost formula is used for all inventories having a similar nature and use to the municipality.

When inventories are sold, the carrying amounts of those inventories are recognised as an expense in the period in which the related revenue is recognised. If there is no related revenue, the expenses are recognised when the goods are distributed, or related services are rendered. The amount of any write-down of inventories to net realisable value or current replacement cost and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value or current replacement cost, are recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

1.12 Impairment of non-cash-generating assets

Cash-generating assets are assets used with the objective of generating a commercial return. Commercial return means that positive cash flows are expected to be significantly higher than the cost of the asset.

Non-cash-generating assets are assets other than cash-generating assets.

All municipal assets are classfied as non cash generting assets.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset’s future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets managed with the objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm’s length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable service amount is the higher of a non-cash-generating asset’s fair value less costs to sell and its value in use.

Useful life is either:

1.12 Impairment of non-cash-generating assets (continued)

- the period of time over which an asset is expected to be used by the municipality; or
- the number of production or similar units expected to be obtained from the asset by the municipality.

Designation

At initial recognition, the municipality designates an asset as non-cash-generating, or an asset or cash-generating unit as cash-generating. The designation is made on the basis of a municipality's objective of using the asset.

The municipality designates an asset as non-cash-generating when its objective is not to use the asset to generate a commercial return but to deliver services.

Identification

When the carrying amount of a non-cash-generating asset exceeds its recoverable service amount, it is impaired.

The municipality assesses at each reporting date whether there is any indication that a non-cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable service amount of the asset.

Irrespective of whether there is any indication of impairment, the entity also tests a non-cash-generating intangible asset with an indefinite useful life or a non-cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable service amount. This impairment test is performed at the same time every year. If an intangible asset was initially recognised during the current reporting period, that intangible asset was tested for impairment before the end of the current reporting period.

Recognition and measurement

If the recoverable service amount of a non-cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable service amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

Any impairment loss of a revalued non-cash-generating asset is treated as a revaluation decrease.

When the amount estimated for an impairment loss is greater than the carrying amount of the non-cash-generating asset to which it relates, the municipality recognises a liability only to the extent that is a requirement in the Standards of GRAP.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset’s revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

1.12 Impairment of non-cash-generating assets (continued)

Reversal of an impairment loss

The municipality assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a non-cash-generating asset may no longer exist or may have decreased. If any such indication exists, the municipality estimates the recoverable service amount of that asset.

An impairment loss recognised in prior periods for a non-cash-generating asset is reversed if there has been a change in the estimates used to determine the asset’s recoverable service amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable service amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss for a non-cash-generating asset is recognised immediately in surplus or deficit.

Any reversal of an impairment loss of a revalued non-cash-generating asset is treated as a revaluation increase.

After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset’s revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

Redesignation

The redesignation of assets from a cash-generating asset to a non-cash-generating asset or from a non-cash-generating asset to a cash-generating asset only occur when there is clear evidence that such a redesignation is appropriate.

1.13 Employee benefits

Employee benefits are all forms of consideration given by an entity in exchange for service rendered by employees.

A qualifying insurance policy is an insurance policy issued by an insurer that is not a related party (as defined in the Standard of GRAP on Related Party Disclosures) of the reporting entity, if the proceeds of the policy can be used only to pay or fund employee benefits under a defined benefit plan and are not available to the reporting entity’s own creditors (even in liquidation) and cannot be paid to the reporting entity, unless either:

- the proceeds represent surplus assets that are not needed for the policy to meet all the related employee benefit obligations; or
- the proceeds are returned to the reporting entity to reimburse it for employee benefits already paid.

Termination benefits are employee benefits payable as a result of either:

- an entity’s decision to terminate an employee’s employment before the normal retirement date; or
- an employee’s decision to accept voluntary redundancy in exchange for those benefits.

Other long-term employee benefits are employee benefits (other than post-employment benefits and termination benefits) that are not due to be settled within twelve months after the end of the period in which the employees render the related service.

Vested employee benefits are employee benefits that are not conditional on future employment.

Composite social security programmes are established by legislation and operate as multi-employer plans to provide post-employment benefits as well as to provide benefits that are not consideration in exchange for service rendered by employees.

A constructive obligation is an obligation that derives from an entity’s actions where by an established pattern of past practice, published policies or a sufficiently specific current statement, the entity has indicated to other parties that it will accept certain responsibilities and as a result, the entity has created a valid expectation on the part of those other parties that it will discharge those responsibilities.

1.13 Employee benefits (continued)

Short-term employee benefits

Short-term employee benefits are employee benefits (other than termination benefits) that are due to be settled within twelve months after the end of the period in which the employees render the related service.

Short-term employee benefits include items such as:
- wages, salaries and social security contributions;
- short-term compensated absences (such as paid annual leave and paid sick leave) where the compensation for the absences is due to be settled within twelve months after the end of the reporting period in which the employees render the related employee service;
- bonus, incentive and performance related payments payable within twelve months after the end of the reporting period in which the employees render the related service; and
- non-monetary benefits (for example, medical care, and free or subsidised goods or services such as housing, cars and cellphones) for current employees.

When an employee has rendered service to the entity during a reporting period, the entity recognise the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service:
- as a liability (accrued expense), after deducting any amount already paid. If the amount already paid exceeds the undiscounted amount of the benefits, the entity recognise that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard requires or permits the inclusion of the benefits in the cost of an asset.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs. The entity measures the expected cost of accumulating compensated absences as the additional amount that the entity expects to pay as a result of the unused entitlement that has accumulated at the reporting date.

The entity recognise the expected cost of bonus, incentive and performance related payments when the entity has a present legal or constructive obligation to make such payments as a result of past events and a reliable estimate of the obligation can be made. A present obligation exists when the entity has no realistic alternative but to make the payments.

Post-employment benefits

Post-employment benefits are employee benefits (other than termination benefits) which are payable after the completion of employment.

Post-employment benefit plans are formal or informal arrangements under which an entity provides post-employment benefits for one or more employees.

Multi-employer plans are defined contribution plans (other than state plans and composite social security programmes) or defined benefit plans (other than state plans) that pool the assets contributed by various entities that are not under common control and use those assets to provide benefits to employees of more than one entity, on the basis that contribution and benefit levels are determined without regard to the identity of the entity that employs the employees concerned.

Participating entities under common control

The contractual agreement, binding arrangement or stated policy for charging the net defined benefit cost is: [provide details] OR There is no contractual agreement, binding arrangement or stated policy for charging the net defined benefit cost.

The policy for determining the contribution to be paid by the entity is as follows: [provide details]

1.13 Employee benefits (continued)

Multi-employer plans and/or State plans and/or Composite social security programmes

The entity classifies a multi-employer plan and/or state plans and/or composite social security programmes as a defined contribution plan or a defined benefit plan under the terms of the plan (including any constructive obligation that goes beyond the formal terms).

Where a plan is a defined contribution plan, the entity accounts for in the same way as for any other defined contribution plan.

Where a plan is a defined benefit plan, the entity account for its proportionate share of the defined benefit obligation, plan assets and cost associated with the plan in the same way as for any other defined benefit plan.

When sufficient information is not available to use defined benefit accounting for a plan, that is a defined benefit plan, the entity account for the plan as if it was a defined contribution plan.

Insured benefits

Where the entity pays insurance premiums to fund a post-employment benefit plan, the entity treats such a plan as a defined contribution plan unless the entity will have (either directly or indirectly through the plan) a legal or constructive obligation to either:

- pay the employee benefits directly when they fall due; or
- pay further amounts if the insurer does not pay all future employee benefits relating to employee service in the current and prior reporting periods.

If the entity retains such a legal or constructive obligation, the entity treats the plan as a defined benefit plan.

Post-employment benefits: Defined contribution plans

Defined contribution plans are post-employment benefit plans under which an entity pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.

When an employee has rendered service to the entity during a reporting period, the entity recognise the contribution payable to a defined contribution plan in exchange for that service:

- as a liability (accrued expense), after deducting any contribution already paid. If the contribution already paid exceeds the contribution due for service before the reporting date, an entity recognise that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard requires or permits the inclusion of the contribution in the cost of an asset.

Where contributions to a defined contribution plan do not fall due wholly within twelve months after the end of the reporting period in which the employees render the related service, they are discounted. The rate used to discount reflects the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the obligation.

1.13 Employee benefits (continued)

Post-employment benefits: Defined benefit plans

Defined benefit plans are post-employment benefit plans other than defined contribution plans.

Actuarial gains and losses comprise experience adjustments (the effects of differences between the previous actuarial assumptions and what has actually occurred) and the effects of changes in actuarial assumptions. In measuring its defined benefit liability the entity recognise actuarial gains and losses in surplus or deficit in the reporting period in which they occur.

Assets held by a long-term employee benefit fund are assets (other than non-transferable financial instruments issued by the reporting entity) that are held by an entity (a fund) that is legally separate from the reporting entity and exists solely to pay or fund employee benefits and are available to be used only to pay or fund employee benefits, are not available to the reporting entity's own creditors (even in liquidation), and cannot be returned to the reporting entity, unless either:

- the remaining assets of the fund are sufficient to meet all the related employee benefit obligations of the plan or the reporting entity; or
- the assets are returned to the reporting entity to reimburse it for employee benefits already paid.

Current service cost is the increase in the present value of the defined benefit obligation resulting from employee service in the current period.

Interest cost is the increase during a period in the present value of a defined benefit obligation which arises because the benefits are one period closer to settlement.

Past service cost is the change in the present value of the defined benefit obligation for employee service in prior periods, resulting in the current period from the introduction of, or changes to, post-employment benefits or other long-term employee benefits. Past service cost may be either positive (when benefits are introduced or changed so that the present value of the defined benefit obligation increases) or negative (when existing benefits are changed so that the present value of the defined benefit obligation decreases). In measuring its defined benefit liability the entity recognise past service cost as an expense in the reporting period in which the plan is amended.

Plan assets comprise assets held by a long-term employee benefit fund and qualifying insurance policies.

The present value of a defined benefit obligation is the present value, without deducting any plan assets, of expected future payments required to settle the obligation resulting from employee service in the current and prior periods.

The return on plan assets is interest, dividends or similar distributions and other revenue derived from the plan assets, together with realised and unrealised gains or losses on the plan assets, less any costs of administering the plan (other than those included in the actuarial assumptions used to measure the defined benefit obligation) and less any tax payable by the plan itself.

The entity account not only for its legal obligation under the formal terms of a defined benefit plan, but also for any constructive obligation that arises from the entity's informal practices. Informal practices give rise to a constructive obligation where the entity has no realistic alternative but to pay employee benefits. An example of a constructive obligation is where a change in the entity's informal practices would cause unacceptable damage to its relationship with employees.

The amount recognised as a defined benefit liability is the net total of the following amounts:

- the present value of the defined benefit obligation at the reporting date;
- minus the fair value at the reporting date of plan assets (if any) out of which the obligations are to be settled directly;
- plus any liability that may arise as a result of a minimum funding requirement

The amount determined as a defined benefit liability may be negative (an asset). The entity measures the resulting asset at the lower of:

- the amount determined above; and
- the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan. The present value of these economic benefits is determined using a discount rate which reflects the time value of money.

1.13 Employee benefits (continued)

Any adjustments arising from the limit above is recognised in surplus or deficit.

The entity determines the present value of defined benefit obligations and the fair value of any plan assets with sufficient regularity such that the amounts recognised in the financial statements do not differ materially from the amounts that would be determined at the reporting date.

The entity recognises the net total of the following amounts in surplus or deficit, except to the extent that another Standard requires or permits their inclusion in the cost of an asset:
- current service cost;
- interest cost;
- the expected return on any plan assets and on any reimbursement rights;
- actuarial gains and losses;
- past service cost;
- the effect of any curtailments or settlements; and
- the effect of applying the limit on a defined benefit asset (negative defined benefit liability).

The entity uses the Projected Unit Credit Method to determine the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost. The Projected Unit Credit Method (sometimes known as the accrued benefit method pro-rated on service or as the benefit/years of service method) sees each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation.

In determining the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost, an entity shall attribute benefit to periods of service under the plan's benefit formula. However, if an employee's service in later years will lead to a materially higher level of benefit than in earlier years, an entity shall attribute benefit on a straight-line basis from:
- the date when service by the employee first leads to benefits under the plan (whether or not the benefits are conditional on further service); until
- the date when further service by the employee will lead to no material amount of further benefits under the plan, other than from further salary increases.

Actuarial valuations are conducted on an annual basis by independent actuaries separately for each plan. The results of the valuation are updated for any material transactions and other material changes in circumstances (including changes in market prices and interest rates) up to the reporting date.

The entity recognises gains or losses on the curtailment or settlement of a defined benefit plan when the curtailment or settlement occurs. The gain or loss on a curtailment or settlement comprises:
- any resulting change in the present value of the defined benefit obligation; and
- any resulting change in the fair value of the plan assets.

Before determining the effect of a curtailment or settlement, the entity re-measure the obligation (and the related plan assets, if any) using current actuarial assumptions (including current market interest rates and other current market prices).

When it is virtually certain that another party will reimburse some or all of the expenditure required to settle a defined benefit obligation, the right to reimbursement is recognised as a separate asset. The asset is measured at fair value. In all other respects, the asset is treated in the same way as plan assets. In surplus or deficit, the expense relating to a defined benefit plan is [or is not] presented as the net of the amount recognised for a reimbursement.

The entity offsets an asset relating to one plan against a liability relating to another plan when the entity has a legally enforceable right to use a surplus in one plan to settle obligations under the other plan and intends either to settle the obligations on a net basis, or to realise the surplus in one plan and settle its obligation under the other plan simultaneously.

1.13 Employee benefits (continued)

Actuarial assumptions

Actuarial assumptions are unbiased and mutually compatible.

Financial assumptions are based on market expectations, at the reporting date, for the period over which the obligations are to be settled.

The rate used to discount post-employment benefit obligations (both funded and unfunded) reflect the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the post-employment benefit obligations.

Post-employment benefit obligations are measured on a basis that reflects:
- estimated future salary increases;
- the benefits set out in the terms of the plan (or resulting from any constructive obligation that goes beyond those terms) at the reporting date; and
- estimated future changes in the level of any state benefits that affect the benefits payable under a defined benefit plan, if, and only if, either:
- those changes were enacted before the reporting date; or
- past history, or other reliable evidence, indicates that those state benefits will change in some predictable manner, for example, in line with future changes in general price levels or general salary levels.

Assumptions about medical costs take account of estimated future changes in the cost of medical services, resulting from both inflation and specific changes in medical costs.

Other post retirement obligations

The municipality provides post-retirement health care benefits, housing subsidies and gratuities upon retirement to some retirees.

The entitlement to post-retirement health care benefits is based on the employee remaining in service up to retirement age and the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment. Independent qualified actuaries carry out valuations of these obligations. The municipality also provides a gratuity and housing subsidy on retirement to certain employees. An annual charge to income is made to cover both these liabilities.

The amount recognised as a liability for other long-term employee benefits is the net total of the following amounts:
- the present value of the defined benefit obligation at the reporting date;
- minus the fair value at the reporting date of plan assets (if any) out of which the obligations are to be settled directly.

The entity shall recognise the net total of the following amounts as expense or revenue, except to the extent that another Standard requires or permits their inclusion in the cost of an asset:
- current service cost;
- interest cost;
- the expected return on any plan assets and on any reimbursement right recognised as an asset;
- actuarial gains and losses, which shall all be recognised immediately;
- past service cost, which shall all be recognised immediately; and
- the effect of any curtailments or settlements.

1.13 Employee benefits (continued)

Termination benefits

The entity recognises termination benefits as a liability and an expense when the entity is demonstrably committed to either:

- terminate the employment of an employee or group of employees before the normal retirement date; or
- provide termination benefits as a result of an offer made in order to encourage voluntary redundancy.

The entity is demonstrably committed to a termination when the entity has a detailed formal plan for the termination and is without realistic possibility of withdrawal. The detailed plan includes [as a minimum]:

- the location, function, and approximate number of employees whose services are to be terminated;
- the termination benefits for each job classification or function; and
- the time at which the plan will be implemented.

Implementation begins as soon as possible and the period of time to complete implementation is such that material changes to the plan are not likely.

Where termination benefits fall due more than 12 months after the reporting date, they are discounted using an appropriate discount rate. The rate used to discount the benefit reflects the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the benefit.

In the case of an offer made to encourage voluntary redundancy, the measurement of termination benefits shall be based on the number of employees expected to accept the offer.

1.14 Provisions and contingencies

Provisions are recognised when:

- the municipality has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date.

Where the effect of time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognised when, and only when, it is virtually certain that reimbursement will be received if the municipality settles the obligation. The reimbursement is treated as a separate asset. The amount recognised for the reimbursement does not exceed the amount of the provision.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required, to settle the obligation.

Where discounting is used, the carrying amount of a provision increases in each period to reflect the passage of time. This increase is recognised as an interest expense.

A provision is used only for expenditures for which the provision was originally recognised.

Provisions are not recognised for future operating surplus (deficit).

If an entity has a contract that is onerous, the present obligation (net of recoveries) under the contract is recognised and measured as a provision.

1.14 Provisions and contingencies (continued)

A constructive obligation to restructure arises only when an entity:

- has a detailed formal plan for the restructuring, identifying at least:
  - the activity/operating unit or part of an activity/operating unit concerned;
  - the principal locations affected;
  - the location, function, and approximate number of employees who will be compensated for services being terminated;
  - the expenditures that will be undertaken; and
  - when the plan will be implemented; and
- has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

A restructuring provision includes only the direct expenditures arising from the restructuring, which are those that are both:

- necessarily entailed by the restructuring; and
- not associated with the ongoing activities of the municipality

No obligation arises as a consequence of the sale or transfer of an operation until the municipality is committed to the sale or transfer, that is, there is a binding arrangement.

After their initial recognition contingent liabilities recognised in entity combinations that are recognised separately are subsequently measured at the higher of:

- the amount that would be recognised as a provision; and
- the amount initially recognised less cumulative amortisation.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 42.

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

Loan commitment is a firm commitment to provide credit under pre-specified terms and conditions.

The municipality recognises a provision for financial guarantees and loan commitments when it is probable that an outflow of resources embodying economic benefits and service potential will be required to settle the obligation and a reliable estimate of the obligation can be made.

Determining whether an outflow of resources is probable in relation to financial guarantees requires judgement. Indications that an outflow of resources may be probable are:

- financial difficulty of the debtor;
- defaults or delinquencies in interest and capital repayments by the debtor;
- breaches of the terms of the debt instrument that result in it being payable earlier than the agreed term and the ability of the debtor to settle its obligation on the amended terms; and
- a decline in prevailing economic circumstances (e.g. high interest rates, inflation and unemployment) that impact on the ability of entities to repay their obligations.

Where a fee is received by the municipality for issuing a financial guarantee and/or where a fee is charged on loan commitments, it is considered in determining the best estimate of the amount required to settle the obligation at reporting date. Where a fee is charged and the municipality considers that an outflow of economic resources is probable, an municipality recognises the obligation at the higher of:

- the amount determined using in the Standard of GRAP on Provisions, Contingent Liabilities and Contingent Assets; and
- the amount of the fee initially recognised less, where appropriate, cumulative amortisation recognised in accordance with the Standard of GRAP on Revenue from Exchange Transactions.

1.14 Provisions and contingencies (continued)

Decommissioning, restoration and similar liability

Changes in the measurement of an existing decommissioning, restoration and similar liability that result from changes in the estimated timing or amount of the outflow of resources embodying economic benefits or service potential required to settle the obligation, or a change in the discount rate, is accounted for as follows:

If the related asset is measured using the cost model:
- changes in the liability is added to, or deducted from, the cost of the related asset in the current period.
- the amount deducted from the cost of the asset does not exceed its carrying amount. If a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit.
- if the adjustment results in an addition to the cost of an asset, the entity consider whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If there is such an indication, the entity test the asset for impairment by estimating its recoverable amount or recoverable service amount, and account for any impairment loss, in accordance with the accounting policy on impairment of assets as described in accounting policy and 1.12.

If the related asset is measured using the revaluation model:
- changes in the liability alter the revaluation surplus or deficit previously recognised on that asset, so that:
  - a decrease in the liability is credited directly to revaluation surplus in net assets, except that it is recognised in surplus or deficit to the extent that it reverses a revaluation deficit on the asset that was previously recognised in surplus or deficit; and
  - an increase in the liability is recognised in surplus or deficit, except that it is debited directly to revaluation surplus in net assets to the extent of any credit balance existing in the revaluation surplus in respect of that asset;
- in the event that a decrease in the liability exceeds the carrying amount that would have been recognised had the asset been carried under the cost model, the excess is recognised immediately in surplus or deficit;
- a change in the liability is an indication that the asset may have to be revalued in order to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the reporting date. Any such revaluation is taken into account in determining the amounts to be taken to surplus or deficit and net assets. If a revaluation is necessary, all assets of that class is revalued; and
- the Standard of GRAP on Presentation of Financial Statements requires disclosure on the face of the statement of changes in net assets of each item of revenue or expense that is recognised directly in net assets. In complying with this requirement, the change in the revaluation surplus arising from a change in the liability is separately identified and disclosed as such.

The adjusted depreciable amount of the asset is depreciated over its useful life. Therefore, once the related asset has reached the end of its useful life, all subsequent changes in the liability is recognised in surplus or deficit as they occur. This applies under both the cost model and the revaluation model.

The periodic unwinding of the discount is recognised in surplus or deficit as a finance cost as it occurs.

1.15 Commitments

Items are classified as commitments when the municipality has committed itself to future transactions that will normally result in the outflow of cash.

Disclosures are required in respect of unrecognised contractual commitments.

Commitments for the municipality for which disclosure is necessary to achieve a fair presentation should be disclosed in a note to the financial statements, if both the following criteria are met:
- Contracts should be non-cancellable or only cancellable at significant cost (for example, contracts for computer or building maintenance services); and
- Contracts should relate to something other than the routine, steady, state business of the entity – therefore salary commitments relating to employment contracts or social security benefit commitments are excluded.

1.16 Revenue from exchange transactions

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

An exchange transaction is one in which the municipality receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of goods, services or use of assets) to the other party in exchange.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Measurement

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

Sale of goods

Revenue from the sale of goods is recognised when all the following conditions have been satisfied:
- the municipality has transferred to the purchaser the significant risks and rewards of ownership of the goods;
- the municipality retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Rendering of services

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the stage of completion of the transaction at the reporting date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

When services are performed by an indeterminate number of acts over a specified time frame, revenue is recognised on a straight line basis over the specified time frame unless there is evidence that some other method better represents the stage of completion. When a specific act is much more significant than any other acts, the recognition of revenue is postponed until the significant act is executed.

When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

Service revenue is recognised by reference to the stage of completion of the transaction at the reporting date. Stage of completion is determined by services performed to date as a percentage of total services to be performed.

1.16 Revenue from exchange transactions (continued)

Interest, royalties and dividends

Revenue arising from the use by others of entity assets yielding interest, royalties and dividends or similar distributions is recognised when:

- It is probable that the economic benefits or service potential associated with the transaction will flow to the municipality, and
- The amount of the revenue can be measured reliably.

Interest is recognised, in surplus or deficit, using the effective interest rate method.

Royalties are recognised as they are earned in accordance with the substance of the relevant agreements.

Dividends or similar distributions are recognised, in surplus or deficit, when the municipality's right to receive payment has been established.

Service fees included in the price of the product are recognised as revenue over the period during which the service is performed.

1.17 Revenue from non-exchange transactions

Revenue comprises gross inflows of economic benefits or service potential received and receivable by a municipality, which represents an increase in net assets, other than increases relating to contributions from owners.

Conditions on transferred assets are stipulations that specify that the future economic benefits or service potential embodied in the asset is required to be consumed by the recipient as specified or future economic benefits or service potential must be returned to the transferor.

Control of an asset arise when the municipality can use or otherwise benefit from the asset in pursuit of its objectives and can exclude or otherwise regulate the access of others to that benefit.

Exchange transactions are transactions in which one entity receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of cash, goods, services, or use of assets) to another entity in exchange.

Expenses paid through the tax system are amounts that are available to beneficiaries regardless of whether or not they pay taxes.

Fines are economic benefits or service potential received or receivable by entities, as determined by a court or other law enforcement body, as a consequence of the breach of laws or regulations.

Non-exchange transactions are transactions that are not exchange transactions. In a non-exchange transaction, a municipality either receives value from another municipality without directly giving approximately equal value in exchange, or gives value to another municipality without directly receiving approximately equal value in exchange.

Restrictions on transferred assets are stipulations that limit or direct the purposes for which a transferred asset may be used, but do not specify that future economic benefits or service potential is required to be returned to the transferor if not deployed as specified.

Stipulations on transferred assets are terms in laws or regulation, or a binding arrangement, imposed upon the use of a transferred asset by entities external to the reporting municipality.

Tax expenditures are preferential provisions of the tax law that provide certain taxpayers with concessions that are not available to others.

The taxable event is the event that the government, legislature or other authority has determined will be subject to taxation.

1.17 Revenue from non-exchange transactions (continued)

Taxes are economic benefits or service potential compulsorily paid or payable to entities, in accordance with laws and or regulations, established to provide revenue to government. Taxes do not include fines or other penalties imposed for breaches of the law.

Transfers are inflows of future economic benefits or service potential from non-exchange transactions, other than taxes.

Recognition

An inflow of resources from a non-exchange transaction recognised as an asset is recognised as revenue, except to the extent that a liability is also recognised in respect of the same inflow.

As the municipality satisfies a present obligation recognised as a liability in respect of an inflow of resources from a non-exchange transaction recognised as an asset, it reduces the carrying amount of the liability recognised and recognises an amount of revenue equal to that reduction.

Measurement

Revenue from a non-exchange transaction is measured at the amount of the increase in net assets recognised by the municipality.

When, as a result of a non-exchange transaction, the municipality recognises an asset, it also recognises revenue equivalent to the amount of the asset measured at its fair value as at the date of acquisition, unless it is also required to recognise a liability. Where a liability is required to be recognised it will be measured as the best estimate of the amount required to settle the obligation at the reporting date, and the amount of the increase in net assets, if any, recognised as revenue. When a liability is subsequently reduced, because the taxable event occurs or a condition is satisfied, the amount of the reduction in the liability is recognised as revenue.

1.18 Borrowing costs

Borrowing costs are interest and other expenses incurred by an entity in connection with the borrowing of funds.

Borrowing costs are recognised as an expense in the period in which they are incurred.

1.19 Unauthorised expenditure

Unauthorised expenditure means:
- overspending of a vote or a main division within a vote; and
- expenditure not in accordance with the purpose of a vote or, in the case of a main division, not in accordance with the purpose of the main division.

All expenditure relating to unauthorised expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.20 Fruitless and wasteful expenditure

Fruitless expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised.

All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

Accounting Policies

1.21 Irregular expenditure

Irregular expenditure is defined in section 1 of the MFMA as follows:
Ïrregular expenditure ", in relation to a municipality or municipal entity, means
a) expenditure incurred by a municpality or municipal entity in contravention of, or that is not in accordance with, a requirement of this Act, and which has not been condoned in terms of section 170;
b) expenditure incurred by a municipality or municipal entity in contravention of, or that is not in accordance with, a requirement of the Municipal Systems Act, and which has not been condoned in terms of that Act;
c) expenditure incurred by a municipality in contravention of, or that is not in accordance with, a requirement of the Plublic Office-Beares Act, 1988 (Act No.20 of 1998);or
d) expenditure incurred by a municipality or municipal entity incontravention contravention of, or that is not in accordance with, a requirement of the supply chain management policy of the municipalityor entity or any of the muncipality'sby-laws giving effect to such policy, and which has not been condoned in terms of such policy or bu-law,
but excludes ependiture by a municipality which falls within the definition of "unautorised expenditure"

In this context 'expenditure' refers to any use of municipal funds that is in contravention of the following legislation:

>Municipal Finance Management Act, Act 56 of 2003, and its regulations
>Municipal Systems Act, Act 32 of 2000, and its regulations
>Public Office Bearers Act, Act 20 of 1998, and its regulations; and
>The municipality's supply chain management policy, and any by- laws giving effect to that policy.

National Treasury practice note no. 4 of 2008/2009 which was issued in terms of sections 76(1) to 76(4) of the PFMA requires the following (effective from 1 April 2008):

Irregular expenditure that was incurred and identified during the current financial and which was condoned before year end and/or before finalisation of the financial statements must also be recorded appropriately in the irregular expenditure register. In such an instance, no further action is also required with the exception of updating the note to the financial statements.

Irregular expenditure that was incurred and identified during the current financial year and for which condonement is being awaited at year end must be recorded in the irregular expenditure register. No further action is required with the exception of updating the note to the financial statements.

Where irregular expenditure was incurred in the previous financial year and is only condoned in the following financial year, the register and the disclosure note to the financial statements must be updated with the amount condoned.

Irregular expenditure that was incurred and identified during the current financial year and which was not condoned by the National Treasury or the relevant authority must be recorded appropriately in the irregular expenditure register. If liability for the irregular expenditure can be attributed to a person, a debt account must be created if such a person is liable in law. Immediate steps must thereafter be taken to recover the amount from the person concerned. If recovery is not possible, the accounting officer or accounting authority may write off the amount as debt impairment and disclose such in the relevant note to the financial statements. The irregular expenditure register must also be updated accordingly. If the irregular expenditure has not been condoned and no person is liable in law, the expenditure related thereto must remain against the relevant programme/expenditure item, be disclosed as such in the note to the financial statements and updated accordingly in the irregular expenditure register.

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), and the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the economic entity’s supply chain management policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

Notes to the Financial Statements

Figures in Rand	2020	2019

2. Operating lease asset (accrual)

Current assets	-	24,799
Current liabilities	(225,957)	(215,270)
	(225,957)	**(190,471)**

3. Employee benefit obligations

Information on post retirements benefits

Employees belong to a variety of approved Pension and Provident Funds as described below. These funds are governed by Pension Funds Act and include both defined and defined contribution schemes. All these afore-mentioned schemes are multi employer plans and are subject to tri annual or annual valuation

Defined Contribution Schemes

Currently the municipality is making contributions to 3 defined contribution pension schemes namely Samwu National Provident Fund (SANPF), Municipal Councillors Pension Fund (MCPF), Cape Joint Pension Fund (CJPF).

GRAP 25 requires the disclosure of the amount recognised as an expense in the current financial year, reflecting the municipality's contribution to these contribution schemes for the year.

Defined Benefit Schemes

The municipality currently participates in Municipal Employees Pension Fund (MEPF), Government Employees Pension Fund (GEPF) Natal Joint Municipal Fund (NJMPF), South African Local Authorities Pension Fund (SALA).

All these are multi employer schemes and sufficient information is not available for the municipality to fully comply with the requirements of GRAP 25 with regards to defined benefits scheme. Plan assets are presented as one portfolio and not notionally allocated to each participating employer, the plan financial assets are not constructed separately for each participating employer but rather in respect of the whole plan including all participating employees. Contribution rates do not vary by participating employers.

The standard requires disclosures of the amount recognised as an expense in the current financial year, reflecting the municipality's contribution paid to these defined schemes in respect of this period.

Pension Contributions	2020	2019
Cape Joint Pension Fund	1,620,274	1,628,345
South African Municipal Provident Fund	4,911,660	4,500,798
Natal Joint Municipal Fund	913,203	866,133
Municipal Employees Pension Fund	10,616,757	8,738,031
South African Local Authorities Pension Fund	59,412	68,038
Gvt Employees Pension Fund	676,591	746,270
	18,797,897	**16,547,615**

Notes to the Financial Statements

Figures in Rand	2020	2019

4. Inventories

Consumables Stores	4,941,541	5,065,761
Water	6,288,092	7,373,080
	11,229,633	**12,438,841**

4.1 Water Losses

Water Stock Opening Balance (Volumes)	214,264	207,190
Produced (Volumes)	2,509,908	2,210,463
Less Water Sales (Volumes)	(1,809,971)	(1,535,294)
Less Water Stock Closing Balances (Volumes)	(209,042)	(214,264)
	705,159	**668,095**

Cost of producing one cubic meter	30.08	34.41
Water loss in rands	21,211,183	22,989,149
Water loss as a % of produced	28	30

The water losses are a result of leakages on the distribution system as well as illegal connections.

5. Receivables from exchange transactions

Consumer debtors - Water	51,976,035	49,414,675
Consumer debtors - Sewerage	2,668,355	2,341,796
Consumer debtors - Other	2,458,863	2,014,927
	57,103,253	**53,771,398**

Gross Amount

Water	128,787,974	123,770,997
Sanitation	19,326,352	18,577,961
Other	3,433,634	3,261,888
	151,547,960	**145,610,846**

Less Allowance for Doubtful Debts		
Water	(76,811,940)	(74,356,322)
Sanitation	(16,657,999)	(16,236,166)
Other	(974,772)	(1,246,961)
	(94,444,711)	**(91,839,449)**

Net Balances		
Water	51,976,034	49,414,675
Sanitation	2,668,353	2,341,795
Other	2,458,862	2,014,927
	57,103,249	**53,771,397**

Notes to the Financial Statements

Figures in Rand	2020	2019

5. Receivables from exchange transactions (continued)

Water

The credit quality of trade and other receivables that are neither past nor due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates:

Current (0-30 days)	3,417,466	3,723,200
31- 60 days	3,026,602	3,617,254
61-90 days	3,191,864	4,136,956
91-120 days	2,872,428	3,061,476
>120 days	116,279,614	109,232,110
	128,787,974	**123,770,996**

Sewerage

Current (0-30 days)	388,428	358,068
31 - 60 days	330,003	348,221
61 -90 days	323,441	342,174
91- 120 days	326,049	338,310
>120 days	17,958,432	17,191,189
	19,326,353	**18,577,962**

Other

Current (0-30 days)	9	38,046
31- 60 days	50,265	33,017
61 - 90 days	35,364	32,384
91- 120 days	35,364	-
> 120 days	3,312,633	3,158,441
	3,433,635	**3,261,888**

Summary of debtors by customer classification

Consumers

Current (0-30 days)	752,531	909,481
31 60 days	719,208	882,897
61- 90 days	721,877	1,197,894
91-120 days	709,660	1,066,433
>120 days	79,675,396	81,078,881
Subtotal	82,578,672	85,135,586
Less Allowance for Doubtful Debts	(71,354,622)	(71,631,265)
	11,224,050	**13,504,321**

Industrial/ Commercial

Current (0-30 days)	437,211	436,666
31-60 days	357,204	273,598
61-90 days	356,649	395,448
91-120 days	363,007	454,995
>120 days	35,180,040	25,720,165
Subtotal	36,694,111	27,280,872
Less Allowance for Doubtful Debts	(9,667,842)	(7,134,460)
	27,026,269	**20,146,412**

Figures in Rand	2020	2019

5. Receivables from exchange transactions (continued)

Churches		
Current (0-30 days)	22,470	32,685
31-60 days	21,645	29,254
61-90 days	23,345	51,193
91-120 days	22,514	46,825
>120 days	2,193,127	1,869,612
Subtotal	2,283,101	2,029,569
Less Allowance for Doubtful Debts	(2,084,077)	(1,797,958)
	199,024	**231,611**

The carrying amount of trade and other receivables are denominated in the following currencies:

National and Provincial Government		
Current (0-30 days)	2,593,692	2,702,435
31-60 days	2,308,814	2,779,727
61-90 days	2,448,798	2,834,594
91-120 days	2,138,660	1,831,533
>120 days	18,037,738	18,344,086
Subtotal	27,527,702	28,492,375
Less Allowance for Doubtful Debts	(10,549,256)	(10,040,737)
	16,978,446	**18,451,638**

Other Sundry		
Current (0-30 days)	-	38,046
31 -60 days	-	33,017
61- 90 days	-	32,384
>120 days	2,464,378	2,568,996
Less allowance for impairment	(788,914)	(1,235,030)
	1,675,464	**1,437,413**

Total		
Current (0-30 days)	3,805,903	4,119,314
31-60 days	3,406,870	3,998,493
61-90 days	3,550,668	4,511,513
91-120 days	3,233,840	3,399,786
>120 days	137,550,680	129,581,740
Subtotal	151,547,961	145,610,846
Less Allowance for Doubtful Debts	(94,444,711)	(91,839,449)
	57,103,250	**53,771,397**

Reconciliation of Allowance for Doubtful Debts

Opening balance	(91,839,449)	(84,024,452)
Provision for impairment	(2,605,254)	(7,814,997)
	(94,444,703)	**(91,839,449)**

Consumer debtors pledged as security

No consumer debtors were pledged as security during the year.

Figures in Rand	2020	2019

5. Receivables from exchange transactions (continued)

Credit quality of consumer receivables

The credit quality of consumer receivables from exchange transactions that are neither past due nor impaired can be assesed for indications of impairment. The municipality considers that the above financial assets that are not impaired at each of the reporting dates under review are of good credit quality. The municipality continously monitors consumers and identified groups by reference to average payment history and incoporates this information into its credit risk control. No external credit rating is performed.

Consumers receivables are billed monthly. No interest is charged on consumer receivables. An imputed interest has been calculated to comply with the provisions of GRAP 9 paragraph 15 of revenue recognition. The municipality enforces its approved credit control policy to ensure the recovery of consumer receivables .None of the financial assets that are fully performing have been renegotiated in the last year.

6. Receivables from non-exchange transactions

Staff Debtors	505,508	464,263
Other Debtors	3,595,723	226,837
	4,101,231	**691,100**

7. VAT receivable

VAT	10,057,662	19,678,934

VAT is payable on a cash basis once payment has been received from debtors then VAT is paid over to SARS

Figures in Rand	2020	2019

8. Cash and cash equivalents

Cash and cash equivalents consist of:

Cash on hand	571,249,917	279,667,745
Bank balances	6,764,704	2,829,436
	578,014,621	**282,497,181**

Short term deposits are investments with a maturity of less than 3 months and earn interests rates varying from 0% to 7.5% per annum.

Credit quality of cash at bank and short term deposits, excluding cash on hand

The credit quality of cash at bank and short term deposits, excluding cash on hand that are neither past due nor impaired can be assessed by reference to external credit ratings (if available) or historical information about counterparty default rates:

The municipality had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	30 June 2020	30 June 2019	30 June 2018	30 June 2020	30 June 2019	30 June 2018
Main Account- Current Account #62024932974	6,699,898	21,280,286	28,448,579	6,764,704	2,829,436	25,332,037
ANDM Main Call Account # 62474364553	280,047,781	176,228,187	25,643,010	280,047,781	176,228,188	25,643,011
DBSA -Loan Account #62425228732	58,962,420	90,301,067	42,352,676	58,962,420	90,301,069	42,352,676
Rural Road Asset Management #62454657720	49,695	3,956	403,129	49,695	3,956	403,129
Regional Bulk Account #62027459371	5,915,464	16,276	75,967	5,915,464	16,276	75,967
EPWP Account # 62058637110	99,237	9,833	64,819	99,237	9,833	329,624
FMG Account # 62033034597	437,883	3,715	65,326	437,883	3,715	65,326
WSIG Grant Account # 62033034448	15,059,475	56,600	115,244	15,059,475	56,600	115,244
Energy & Efficency Account #62027455808	2,604,111	31,184	11,490	2,604,111	31,184	11,490
Salaries & Alowances # 620255448855	48,737,597	12,670,980	123,110	48,737,597	12,670,980	123,110
ISDG Account # 62093560136	1,972,564	12,427	1,437,430	1,972,564	12,427	1,437,430
MIG Account # 62065368328	92,991,417	333,509	366,512	92,991,417	333,509	366,512
NEDBANK	64,372,274	-	-	64,372,274	-	-
Petty Cash	-	-	-	-	7	-
Total	**577,949,816**	**300,948,020**	**99,107,292**	**578,014,622**	**282,497,180**	**96,255,556**

9. Property, plant and equipment

	2020			2019		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Land	465,000	-	465,000	465,000	-	465,000
Buildings	55,888,471	(25,671,683)	30,216,788	55,539,544	(23,785,624)	31,753,920
Infrastructure	2,300,883,484	(532,755,396)	1,768,128,088	2,259,629,679	(464,280,295)	1,795,349,384
Other property, plant and equipment	95,618,931	(46,278,239)	49,340,692	81,180,436	(38,150,702)	43,029,734
Assets Under Construction - Water	2,193,474,311	-	2,193,474,311	1,865,130,800	-	1,865,130,800
Assets Under Construction- Sanitation	190,232,239	-	190,232,239	191,315,838	-	191,315,838
Assets Under Construction- Specialised Vehicle Conversion	-	-	-	2,086,796	-	2,086,796
Assets Under Construction- Buildings	5,109,269	-	5,109,269	1,754,526	-	1,754,526
Total	**4,841,671,705**	**(604,705,318)**	**4,236,966,387**	**4,457,102,619**	**(526,216,621)**	**3,930,885,998**

Reconciliation of property, plant and equipment - 2020

	Opening balance	Additions	Derecognition	Transfers	Depreciation	Total
Land	465,000	-	-	-	-	465,000
Buildings	31,753,920	348,927	-	-	(1,886,059)	30,216,788
Infrastructure	1,795,349,384	136,500	(129,956)	41,859,817	(69,087,657)	1,768,128,088
Other property, plant and equipment	43,029,734	10,947,082	(266,374)	4,173,592	(8,543,342)	49,340,692
Assets Under Construction - Water	1,873,856,718	361,477,412	-	(41,859,819)	-	2,193,474,311
Assets Under Construction - Sanitation	182,589,920	7,642,320	-	-	-	190,232,240
Assets Under Construction- Specialised Vehicle Conversion	2,086,796	2,086,796	-	(4,173,592)	-	-
Assets under Construction - Buildings	1,754,526	3,354,742	-	-	-	5,109,268
	3,930,885,998	**385,993,779**	**(396,330)**	**(2)**	**(79,517,058)**	**4,236,966,387**

9. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2019

	Opening balance	Additions	Derecognition	Transfers	Other changes, movements	Depreciation	Total
Land	465,000	-	-	-	-	-	465,000
Buildings	35,377,303	-	-	(1,754,526)	-	(1,868,857)	31,753,920
Infrastructure	1,806,579,021	-	-	56,176,640	-	(67,406,277)	1,795,349,384
Other property, plant and equipment	47,165,205	6,316,949	(1,240,265)	-	-	(9,212,155)	43,029,734
Assets Under Construction - Water	1,479,312,915	445,682,501	-	(45,157,781)	(5,980,917)	-	1,873,856,718
Assets Under Construction - Sanitation	187,994,659	5,504,985	-	(10,909,724)	-	-	182,589,920
Asset Under Construction Roads	-	2,086,796	-	-	-	-	2,086,796
Assets Under Construction - Buildings	1,754,526	-	-	-	-	-	1,754,526
	3,558,648,629	**459,591,231**	**(1,240,265)**	**(1,645,391)**	**(5,980,917)**	**(78,487,289)**	**3,930,885,998**

The following water and infrastructure projects have been on hold for more than 2 years due to budget constraints

1) Tholamela Water
2) Ramohlakoana Sewer reticulation
3) Feasibility Studies

Expenditure incurred to repair and maintain property, plant and equipment

Expenditure incurred to repair and maintain property, plant and equipment included in Statement of Financial Performance		
Contracted services	40,100,925	41,196,035

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

10. Intangible assets

	2020			2019		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Computer software, internally generated	6,531,869	(4,350,802)	2,181,067	6,426,569	(3,668,947)	2,757,622
Computer software, other	629,482	-	629,482	-	-	-
Total	**7,161,351**	**(4,350,802)**	**2,810,549**	**6,426,569**	**(3,668,947)**	**2,757,622**

Reconciliation of intangible assets - 2020

	Opening balance	Additions	Amortisation	Total
Computer software, internally generated	2,757,622	160,000	(736,555)	2,181,067
Website Development	-	629,482	-	629,482
	2,757,622	**789,482**	**(736,555)**	**2,810,549**

Reconciliation of intangible assets - 2019

	Opening balance	Additions	Amortisation	Total
Computer software, internally generated	2,841,544	301,890	(385,812)	2,757,622

11. Heritage Assets

	2020			2019		
	Cost / Valuation	Accumulated impairment losses	Carrying value	Cost / Valuation	Accumulated impairment losses	Carrying value
Art Collections, antiquities and exhibits	131,100	-	131,100	131,100	-	131,100

12. Investments in controlled entities

Name of company	Held by	% holding 2020	% holding 2019	Carrying amount 2020	Carrying amount 2019
Alfred Nzo Development Agency		100.00 %	100.00 %	100	100

The carrying amounts of controlled entities are shown at cost.

13. Staff Loans

	2020	2019
Long Term Receivables	1,076,862	1,088,862
	1,076,862	1,088,862
Allowance for Doubtful Debts	(1,076,862)	(1,088,862)
	-	-

Notes to the Financial Statements

Figures in Rand	2020	2019

13. Staff Loans (continued)

The municipality assisted some employees to buy motor vehicles through provision of car loans. However, some of them have long left the municipality and some have passed on. This makes the recoverability of the amounts in question doubtful hence the muncipality decided to fully provide for the loan balances.

These loans were granted in 2002. The municipality does not offer loans to staff anymore.

14. Investments

Designated at fair value		
Nedbank Long term investment	8,727,587	8,022,159
	8,727,587	8,022,159
	-	-
	-	-
Non-current assets	8,727,587	8,022,159
Current assets	-	-

Account	Cashbook 2020	Cashbook 2019	Bank Statement 2020	Bank Statement 2019
Nedbank Account	8,727,587	8,022,159	8,727,587	8,022,159

15. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts		
Municipal Infrastructure Grant	70,880,119	-
Municipal Systems Implementation Grant	(1)	(1)
Water Services Infrastructure Grant	5,430,266	-
Infrastructure Skills Development Grant	3	3
Regional Bulk Infrastructure Grant	1	1
	76,310,388	**3**

The nature and extent of government grants recognised in the financial statements and an indication of other forms of government assistance from which the municipality has directly benefited;

Unfulfilled conditions and other contingencies attaching to government assistance that has been recognised.

See note 27 for reconciliation of grants from National/Provincial Government.

These amounts are invested in ring-fenced investments until utilised.

Figures in Rand	2020	2019

16. Provisions

Reconciliation of provisions - 2020

	Opening Balance	Utilised during the year	Total
Litigation Provision	1,200,000	-	1,200,000
Leave Provision	22,504,078	6,520,885	29,024,963
	23,704,078	**6,520,885**	**30,224,963**

Reconciliation of provisions - 2019

	Opening Balance	Additions	Total
Legal proceedings	-	1,200,000	1,200,000
Leave Provision	20,127,818	2,376,260	22,504,078
Non Current Long Service	-	-	-
	20,127,818	**3,576,260**	**23,704,078**

Leave Provision

Staff leave accrue to the staff of the municipality on an annual basis, subject to certain conditions. The provision is an estimate of the amount due at the reporting date.

Litigation Provision

On the 26th of June 2019, the High Court of South Africa, Mthatha, delivered a judgement against the municipality on an old case between the municipality and Ms Z Mgwebi. The two parties are to meet to discuss the quantum of the compensation.

17. Long Term Loan

Annuity loan is with the Development Bank of South Africa over a period of 25 years and at an interest rate of 11.47% per annum.

The municipality did not default on any payment of its Long Term Liabilities. No terms for payment were re-negotiated by the municipality.

An Investment with Nedbank (Account Number 7881111046/0002) has been ceded as security for the loan.

The loan was settled in the current financial year.

	2020	2019
Development Bank of South Africa		
Non Current at Amortised Cost	-	4,436,079
Current at Amortised cost	6,926	770,706
	6,926	**5,206,785**

18. Payables From Non Exchange Transactions

These are payments made by customers in advance for consumption.

	2020	2019
Advance payments by customers	2,241,327	1,178,433

Figures in Rand	2020	2019

19. Payables from exchange transactions

Trade payables	7,250,639	4,871,300
Accruals	86,266,544	47,622,545
Accrued bonus	5,341,001	4,622,743
Retentions	58,951,140	50,493,865
Third party payments	9,042,723	6,449
Other Creditors	118,040	2,775
	166,970,087	**107,619,677**

Figures in Rand	2020	2019

20. Employee Benefit Obligation

Long Service Awards		
Current Portion	1,296,000	665,078
Non Current Portion	9,603,000	8,922,810
	10,899,000	**9,587,888**

Long Service Awards
The municipality operates an unfunded defined benefit plan for all its employees. Under the plan, a long- service award is payable after five years of continuous service and every five years thereafter to employees. The provision is an estimate of the long service based on historical staff turnover. No other long service benefits are provided to employees. These provisions are made to enable the municipality to be in a position to fulfil its known legal obligations when they become due and payable.

The most recent actuarial valuations of plan assets and the present value of the defined benefit obligation were carried out at 30 June 2020 by Mr C Weiss Fellow of the Actuarial Society of South Africa. The present value of the defined benefit obligation, and the related current service cost and past service cost, were measured using the Projected Unit Credit Method.

At year end of the year 488, (2019: 448) employees were eligible for Long Service Awards.

The principal assumptions used for the purpose of the acturial valuations were		
Discount rate %	7	8
Cost Inflation rate %	4	6
Net Effective Discount Rate	3	2
Expected Retirement Age - Females	62	60
Expected Retirement Age - Males	62	65
	-	-

Movements in the present value of the Defined Obligation were as follows:		
Balance at the beginning of the year	9,587,888	7,557,467
Current Service Cost	1,346,722	944,015
Interest cost	755,769	607,176
Benefit Paid	(305,638)	(897,048)
Actuarial (gains) losses	(485,741)	1,376,278
Present Value of Fund at the end of the Year	**10,899,000**	**9,587,888**

The amounts recognised in the Statement of Financial Performance are as follows		
Current Service Cost	1,346,722	944,015
Interest Cost	755,769	607,176
Actuarial (gain) /loss	(485,741)	897,443
	1,616,750	**2,448,634**

The history of the adjustments is as follows	2020	2019	2018	2017
Defined Value of Defined Value Obligation	10,899,000	9,587,888	7,557,467	7,184,252

Notes to the Financial Statements

Figures in Rand	2020	2019

21. Revenue

Service charges	24,666,692	36,021,719
Rental of facilities and equipment	207,496	369,583
Agency services	328,787	221,502
Other income	1,174,378	2,812,165
Interest received - investment	45,362,429	38,857,409
Government grants & subsidies	1,017,729,452	1,038,098,210
	1,089,469,234	**1,116,380,588**

The amount included in revenue arising from exchanges of goods or services are as follows:		
Service charges	24,666,692	36,021,719
Rental of facilities and equipment	207,496	369,583
Agency services	328,787	221,502
Other income	1,174,378	2,812,165
Interest received - investment	45,362,429	38,857,409
	71,739,782	**78,282,378**

The amount included in revenue arising from non-exchange transactions is as follows:		
Taxation revenue		
Transfer revenue		
Government grants & subsidies	1,017,729,452	1,038,098,210

22. Service charges

Sale of water	22,179,697	32,549,994
Sewerage and sanitation charges	2,486,995	3,471,725
	24,666,692	**36,021,719**

23. Rental of facilities and equipment

Premises		
Premises	207,496	369,583

24. Other income

Clearance fees	64,926	1,894,421
Fire Levy	23,729	18,270
Sundry Income	503,500	899,474
Insurance Refund	582,223	-
	1,174,378	**2,812,165**

25. Investment revenue

Interest revenue		
Call Deposits	31,906,871	26,036,852
SARS Interest	58,607	-
Debtors Fair Value Adjustment	13,396,951	12,820,557
	45,362,429	**38,857,409**
	-	-
	45,362,429	38,857,409

Figures in Rand	2020	2019

26. Agency Services

Commission received	328,787	221,502

The municipality earns commission from garnishee orders done on the employees salaries and paid to the third parties.

Notes to the Financial Statements

Figures in Rand	2020	2019

27. Government grants and subsidies

Operating grants

Equitable share	556,720,000	510,344,000
Finance Management Grant	1,865,000	1,865,000
Local Government SETA	403,071	373,796
Energy Efficiency and Demand Management	6,000,000	6,000,000
Climate Change Grant	163,240	-
Expanded Public Works Programme	9,174,000	10,844,000
Water Services Infrastructure Grant	84,569,734	110,000,000
Municipal Infrastructure Grant	305,128,881	347,914,000
Regional Bulk Infastructure Grant	44,002,526	43,067,414
Department of Transport	2,426,000	2,290,000
Municipal Disaster Grant	1,877,000	-
Infrastructure Skills Development Grant	5,400,000	5,400,000
	1,017,729,452	**1,038,098,210**

Equitable Share

In terms of the Constitution, this grant is used to subsidise the provision of basic services to indigent community members.

During the year, the municipality received its draw downs as per National Treasury indicatives.

Expanded Public Works Programme

Current-year receipts	9,174,000	10,844,000
Conditions met - transferred to revenue	(9,174,000)	(10,844,000)
	-	-

EPWP grant is used to incentivise municipalities to expand work creation efforts through the use of labour intensive delivery methods in the following identified focus areas, in compliance with the EPWP guidelines: road maintenance and maintenance of buildings, low traffic volume roads and rural roads, basic services, infrastructure, including water and sewer reticulation, sanitation, pipelines (excluding bulk infrastructure) other economic and social infrastructure, tourism and cultural industries, waste management, parks and beautification, sustainable land based livelihoods, social services programmes and community safety programmes.

During the year, the municipality received its draw downs as per National Treasury indicatives

Finance Management Grant (FMG)

Current-year receipts	1,865,000	1,865,000
Conditions met - transferred to revenue	(1,865,000)	(1,865,000)
	-	-

The Finance Management Grant is allocated to municipalities to assist in building in house capacity to perform their functions and to improve and stabilise municipal systems. No funds have been withheld.

During the year, the municipality received its draw downs as per National Treasury indicatives.

Municipal Infrastructure Grant (MIG)

Current-year receipts	376,009,000	367,914,000
Conditions met - transferred to revenue	(305,128,881)	(347,914,000)
Other	-	(20,000,000)
	70,880,119	-

Figures in Rand	2020	2019

27. Government grants and subsidies (continued)

The grant is meant to eradicate basic municipal infrastructure backlogs for poor households, micro enterprises and social institutions servicing poor communities.
The municipality has applied to National Treasury for roll over of the unspent amount of the grant.

Department of Transport

Current-year receipts	2,426,000	2,290,000
Conditions met - transferred to revenue	(2,426,000)	(2,290,000)
	-	-

Conditions still to be met - remain liabilities The grant is used to supplement projects for the repair of roads and bridges damaged by unforeseen incidents including natural disasters

During the year, the municipality received its draw downs as per National Treasury indicatives

Water Services Infrastructure Grant (WSIG)

Current-year receipts	90,000,000	110,000,000
Conditions met - transferred to revenue	(84,569,734)	(110,000,000)
	5,430,266	-

Conditions still to be met - remain liabilities (see note 15)

The grant is used to facilitate the planning and implementation of various water and sanitation projects to accelerate backlog reduction and enhance the sustainability of services especially in rural municipalities..

During the year, the municipality received its draw downs as per National Treasury indicatives.

The municipality has applied to National Treasury for roll over of the unspent grant.

Infrastructure Skills Development Grant (ISDG)

Current-year receipts	5,400,000	5,400,000
Conditions met - transferred to revenue	(5,400,000)	(5,400,000)
	-	-

To recruit unemployed graduates into municipalities to be trained as the requirements of the relevant statutory councills within the built environment.

During the year, the municipality received its draw downs as per National Treasury indicatives.

Regional Bulk Infrastructure Grant (RBIG)

Current-year receipts	44,002,526	43,067,414
Conditions met - transferred to revenue	(44,002,526)	(43,067,414)
	-	-

The grant was used for construction of bulk infrastructure which will provide sustainable water supply to the communities of Umzimvubu ana Matatilele local areas. The grant is transfered from DWA.

During the year, the municipality received its draw downs as per National Treasury indicatives.

Energy Efficiency

Figures in Rand	2020	2019

27. Government grants and subsidies (continued)

Current-year receipts	6,000,000	6,000,000
Conditions met - transferred to revenue	(6,000,000)	(6,000,000)
	-	-

To provide subsidies to municipalities to implement energy efficiency and demand side management initiatives within municipal infrastructure in order to reduce electricity consumption and improve energy efficiency.

During the year, the municipality received its draw downs as per National Treasury indicativesy

Municipal Disaster Relief

Current-year receipts	1,877,000	-
Conditions met - transferred to revenue	(1,877,000)	-
	-	-

Conditions still to be met - remain liabilities (see note 15).

To provide funding for responding to and providing relief for unforseable and unavoidable disasters.

Notes to the Financial Statements

Figures in Rand	2020	2019

28. Employee related costs

Basic	177,202,450	161,038,916
Bonus	11,149,674	9,836,386
Medical aid - company contributions	9,804,410	8,638,303
UIF	1,297,190	902,584
SDL	1,669,902	1,836,000
Leave pay provision charge	9,218,957	4,755,226
Defined contribution plans	18,797,896	16,547,617
Overtime payments	3,548,881	1,241,211
Long-service awards	2,102,491	1,551,190
Transport allowance	16,850,001	15,909,450
Housing benefits and allowances	7,100,026	7,268,372
Standby allowances	1,854,670	890,869
Shift Allowances	15,072,586	14,546,744
Bargaining Council	60,775	51,329
	275,729,909	**245,014,197**

Remuneration of Municipal Manager

Annual Remuneration	1,074,635	1,022,414
Car Allowance	125,374	118,277
Bonus	88,286	83,459
Contributions to UIF, SDL and Levy	15,079	16,704
Other	501,495	473,109
	1,804,869	**1,713,963**

Remuneration of Chief Finance Officer

Annual Remuneration	1,138,109	1,066,921
Car Allowance	282,080	266,113
Bonus	73,528	46,200
Contributions to UIF, SDL, Levy	12,280	13,972
	1,505,997	**1,393,206**

Remuneration of Senior Manager - Community Services

Annual Remuneration	770,153	968,746
Car Allowance	128,359	10,091
Bonus	20,182	-
Contributions to UIF, SDL, Levy	12,289	11,737
Other	320,897	25,228
	1,251,880	**1,015,802**

Remuneration of Senior Manager- Corporate Services

Annual Remuneration	770,153	726,559
Car Allowance	320,897	302,733
Bonus	63,271	59,812
Contributions to UIF, SDL, Levy	12,401	13,591
Other	128,359	121,093
	1,295,081	**1,223,788**

Figures in Rand	2020	2019

28. Employee related costs (continued)

Remuneration of Senior Manager -Technical Services

Annual Remuneration	385,907	688,444
Car Allowance	96,476	223,704
Bonus	32,159	73,860
Contributions to UIF, SDL, Levy	5,340	13,983
Other	128,637	177,816
Acting Allowance	48,437	-
	696,956	**1,177,807**

Remuneration of Senior Manager -Planning and Economic Development

Annual Remuneration	238,895	606,450
Car Allowance	15,000	105,261
Bonus	-	47,571
Contributions to UIF, SDL	1,216	11,548
Other	17,159	248,467
Acting allowance	86,945	-
	359,215	**1,019,297**

Remuneration of staff is within the upper limits of the SALGA bargaining council determinations.

29. Remuneration of councillors

Councillors	11,565,141	10,359,387

Remuneration of Councillors		
Executive Mayor	893,850	859,471
Deputy Executive Mayor	442,648	393,890
Speaker	715,078	687,575
Chief Whip	670,387	679,242
Mayoral Committee	5,452,032	5,321,369
Councillors	3,391,145	2,417,840
	11,565,140	**10,359,387**

The allowances and benefits of councillors as disclosed above are within the upper limits of the framework envisaged in Section 219 of the Constitution, read with the Remuneration of Public Office Bearers Act and the Minister of Provincial and Local Government's determination in accordance with this act.

30. Litigation Expenditure

Legal Fees	2,038,619	9,508,418

31. Depreciation and amortisation

Property, plant and equipment	80,253,612	77,301,720

32. Finance costs

Interest on Overdue Accounts	364	13,428
DBSA Loan	359,019	725,915
	359,383	**739,343**

Figures in Rand	2020	2019

33. Debt impairment

Provision for Debt Impairment	2,593,262	7,814,997

34. Bulk purchases

Water	8,624,476	8,910,629

35. Contracted services

Security Services	26,053,628	19,322,891
Repairs and Maintanence	42,305,554	41,196,034
Other Contractors	24,502,217	22,072,964
	92,861,399	**82,591,889**

36. Transfers and subsidies paid

Other subsidies		
Other Grants	17,826,087	17,395,425

37. General expenses

Advertising	1,709,148	4,378,462
Auditors remuneration	6,788,280	6,031,096
Bank charges	766,064	754,501
Cleaning	1,435,259	473,538
Consulting and professional fees	27,722,431	6,551,264
Consumables	8,072,178	8,778,594
Insurance	1,783,241	1,789,127
Conferences and seminars	600,144	1,781,476
IT expenses	1,279,000	-
Magazines, books and periodicals	631,695	-
Fuel and oil	4,058,974	3,588,677
Printing and stationery	1,364,519	828,889
Protective clothing	725,078	3,658,170
Software expenses	-	141,710
Subscriptions and membership fees	2,748,532	2,719,150
Telephone and fax	7,533,848	7,629,411
Travel - local	20,753,512	21,000,720
Electricity	14,475,377	13,110,267
Accomodation	4,521,339	4,057,167
Audit Committee	599,536	641,378
Catering and Venue Hire	1,741,230	3,191,655
Licence Fees	8,236,850	10,191,870
Other expenses	20,799,088	18,693,359
	138,345,323	**119,990,481**

Cost containment measures

The municipality has developed and implemented the cost containment policy as per Government Gazette No 42514.

38. Auditors' remuneration

Fees	6,788,280	6,031,096

Notes to the Financial Statements

Figures in Rand	2020	2019

39. Cash generated from operations

Surplus	458,876,377	533,761,902
Adjustments for:		
Depreciation and amortisation	80,253,612	77,301,720
Loss on Disposals	82,862	1,240,265
Actuarial (Gains)/Loss	(485,741)	897,443
Finance costs	(144,939)	(67,676)
Debt impairment	2,593,262	7,814,997
Movements in operating lease assets and accruals	35,486	19,018
Movements in provisions	6,520,885	5,838,651
Movement in short term provisions	1,311,112	-
Changes in working capital:		
Inventories	1,209,208	(1,691,242)
Receivables from exchange transactions	(5,937,114)	(11,708,153)
Other receivables from non-exchange transactions	(3,410,131)	582,035
Payables from exchange transactions	30,438,640	(3,216,275)
VAT	9,621,272	6,967,747
Unspent conditional grants and receipts	76,310,385	1
Payables from Non Exchange Transactions	1,062,894	800,058
	658,338,070	**618,540,491**

40. Financial instruments disclosure

Categories of financial instruments

2020

Financial assets

	At fair value	At amortised cost	At cost	Total
Unlisted Investments	-	-	100	100
Long Term Investments	8,727,587	-	-	8,727,587
Trade and other receivables	-	57,103,253	-	57,103,253
Other recivables from Non Exchange Transactions	-	4,101,231	-	4,101,231
Cash and cash equivalents	-	578,014,620	-	578,014,620
VAT Receivable	-	10,057,662	-	10,057,662
	8,727,587	**649,276,766**	**100**	**658,004,453**

Financial liabilities

	At amortised cost	Total
DBSA Loan	6,926	6,926
Trade and other payables from exchange transaction	166,970,089	166,970,089
Trade and other payables from non exchange transactions	2,241,327	2,241,327
Operating lease liability	225,957	225,957
Unspent grants	76,310,388	76,310,388
	245,754,687	**245,754,687**

2019

Financial assets

	At fair value	At amortised cost	At cost	Total
Unlisted Investments	-	-	100	100

40. Financial instruments disclosure (continued)

Long Term Investments	8,022,159	-	-	8,022,159
Trade and Other Receivables from Exchange transactions	-	53,771,397	-	53,771,397
Other Receivables from non - exchange transactions	-	691,100	-	691,100
Cash and cash equivalents	-	282,497,180	-	282,497,180
VAT Receivable	-	19,678,934	-	19,678,934
Operating lease Asset	-	24,799	-	24,799
	8,022,159	**356,663,410**	**100**	**364,685,669**

Financial liabilities

	At amortised cost	Total
Long Term Loan	5,206,785	5,206,785
Trade and other payables from exchange transactions	107,619,679	107,619,679
Operating lease liability	215,269	215,269
Payables from Non Exchange Transactions	1,178,433	1,178,433
	114,220,166	**114,220,166**

41. Commitments

Authorised capital expenditure

Already contracted for but not provided for		
• Property, plant and equipment	776,493,760	969,758,009
Total capital commitments		
Already contracted for but not provided for	776,493,760	969,758,009

This committed expenditure relates to property and will be financed by grants and internally generated funds..

Operating leases - Buildings Expenses

Minimum lease payments due		
- within one year	387,679	356,071
- in second to fifth year inclusive	1,095,013	1,388,832
- later than five years	101,067	394,908
	1,583,759	**2,139,811**

Operating lease payments represent rentals payable by the municipality for certain of its office properties. No contingent rent is payable.

Rental expenses relating to operating leases		
Minimum lease payments	43,521	435,215

Operating leases - as lessor (income)

Minimum lease payments due		
- within one year	-	373,327
- in second to fifth year inclusive	-	329,044
	-	**702,371**

Certain of the municipality's excess office space at the main offices is rented out to third parties. Lease agreements are non-cancellable and have terms from 3 to 6 years. There are no contingent rents receivable.

Notes to the Financial Statements

Figures in Rand	2020	2019

42. Contingencies

Contingent Liabilities	2020	2019
Makaziwe vs ANDM In this matter summons were issued against the municipality for payment of the sum R115 000 for services rendered it being alleged that the service provider was appointed to render certain services. The matter is being defended.	115,000	115,000
During 2010 J and G Enterprises issued summons for financial damages it being alleged that the municipality stopped them from performing their contract. The matter is being defended by the municipality . The matter is in pleading stage	1,541,600	1,541,600
In 2010 Zolani Gulwa issued summons against the municipality for breach of contract of employment in that the municipality failed to pay him in terms of the contract. The municipality is defending the matter and it is pending in the high court. The matter is in pleading stage.	566,189	566,189
Sinezipho Urban and Rural Development claims against the municipality for alleged termination of contract. The municipality is defending the matter	1,544,713	1,544,713
In 2008 M J Phirimane issued summons against the municipality for services rendered. The municipality is defending the matter. A trial date is awaited.	-	28,200
Rob Potow irrigation issued summons against the municipality for failure to pay for for material supplied in term of a verbal agreement. The municipality is defending the matter. The outcome is not certain at this stage.	-	24,522
Letter of demand received in lieu of specialist consultancy services rendered ANDM vs Moko Corporate	375,927	375,927
Supa Brick Tile vs ANDM: Payment for oustanding material for building material supplied as per cession.	127,782	127,782
ANDM vs PDNA: Debt collection in respect to outstanding amounts.	68,400	68,400
ANDM vs Don Boti: Eviction matter	-	25,187
Natal Joint Municipal Pension Fund vs ANDM: Pyment of outstanding fund contribution	147,937	147,937
Eugene Nel and Anand Jayraj v ANDM: Outstanding payment in respect of construction of municipalitys infrastructure	2,990,117	2,990,117
Sikhokele Maphukutha VS ANDM: Repudiation of employment contract	6,600,000	6,600,000
Uvikela Security vs ANDM: Outstanding payment in respect of supply, instalation and delivery of security equipment.	-	333,192
ANDM vs Arule Security: Payment outstanding for services rendered.	1,392,679	1,392,679
ECDC vs ADNM: Outstanding payment in respect of cession agreement.	114,240	114,240
Ikamva Lolutsha vs ANDM: Alleged breach of contract in lie of supply of branded material.	40,072	40,072
ANDM vs Royal Hasking: Outstanding amount in respect of Umzimvubu ward 6 water project.	1,259,500	1,259,500
Madikizela vs ANDM: Alleged termination of contract of employment	3,000,000	3,000,000
ANDM vs Sutu : Motor vehicle accident	50,000	50,000
Standard Bank Vs ANDM- Damages for motor vehicle.	100,000	-
Umso Construction VS ANDM- Claim for services rendered.	5,390,148	-
ANDM Vs Affinity solutions - non payment for professional services rendered	313,505	313,505
ANDM vs MP Civils - Alleged failure to supply and deliver a crawler sprinkler	30,700	30,700
ANDM vs Hlumie Security Forces- Termination of contract	577,500	-
ANDM vs Yongama Gxumisa- Repudiation of employment agreement.	5,000,000	-
	31,346,009	**20,689,462**

Contingent assets

	2020	2019
ANDM vs Nontuthuzelo: Claim arising from motor vehicle accident	-	6,907
ANDM vs Bulelani: Claim arising from motor vehicle accident	-	1,079
	-	**7,986**

Notes to the Financial Statements

Figures in Rand	2020	2019

43. Related parties

	Grant Issued 2020	Grant Issued 2019
Grant to ANDA	17,826,087	17,395,425

With regards to remuneration of Section 56 managers, please refer to note 30 which details the remuneration to Senior Managers
During the year the municipality offered service in kind to ANDA in relation to Internal Audit. The total cost was R287 897.

44. Prior period errors

Prior period has been amended to account for prior period errors

Below is a summary of the total effect that the prior period errors, changes in accounting policies and reclassification of comparatives had on the amounts previously disclosed in the annual financial statements, followed by a description of each individual error with the amounts involved

The correction of the error(s) results in adjustments as follows:

44. Prior period errors (continued)

Statement of Financial Performance for the year ended 2019	Balance as previously reported	Prior period error	Reclassfied	Restated Balance
Service charges	36,021,719	-	-	36,021,719
Rental of facilities	369,583	-	-	369,583
Agency services	221,502	-	-	221,502
Other income	2,812,165	-	-	2,812,165
Interest received - investment	38,857,409	-	-	38,857,409
Government grants and subsidies	1,038,098,210	-	-	1,038,098,210
Revenue Total	1,116,380,588	-	-	1,116,380,588
Employee Related Costs	(245,014,197)	-	-	(245,014,197)
Remuneration of Councillors	(10,359,387)	-	-	(10,359,387)
General Expenses	(117,970,069)	(2,020,412)	-	(119,990,481)
Litigation Expenditure	(9,479,174)	(29,244)	-	(9,508,418)
Debt Impairment	(7,814,997)	-	-	(7,814,997)
Depreciation and amortisation	(74,144,596)	(3,157,124)	-	(77,301,720)
Finance Costs	(739,343)	-	-	(739,343)
Bulk purchases	(8,910,629)	-	-	(8,910,629)
Contracted services	(82,533,423)	(58,466)	-	(82,591,889)
Transfers and subsidies	(17,395,425)	-	-	(17,395,425)
Gain or loss on disposal	(1,240,265)	-	-	(1,240,265)
Actuarial gains or loss	(897,443)	-	-	(897,443)
Operating leases	(854,492)	-	-	(854,492)
Surplus for the year	**539,027,148**	**(5,265,246)**	**-**	**533,761,902**

Statement of Financial Position as at 30 June 2019	Balances as previously reported	Prior period errors	Reclassified	Restated Balance
Inventories	12,438,841	-	-	12,438,841
Receivables from exchange transactions	53,771,398	-	-	53,771,398
Receivables from non- exchange transactions	1,065,753	(374,653)	-	691,100
VAT Receivable	21,264,303	(1,585,369)	-	19,678,934
Cash and cash equivalents	282,497,181	-	-	282,497,181
Property Plant and Equipment	3,937,572,360	(6,686,362)	-	3,930,885,998
Intangible Assets	2,757,622	-	-	2,757,622
Heritage Assets	131,100	-	-	131,100
Investments in Controlled Entities	100	-	-	100
Investments	8,022,159	-	-	8,022,159
Operating lease asset	24,799	-	-	24,799
Subtotal	4,319,545,616	(8,646,384)	-	4,310,899,232
Operating lease	(215,270)	-	-	(215,270)
Payables from exchange transactions	(117,556,008)	9,936,329	-	(107,619,679)
Unspent Conditional Grants	(3)	-	-	(3)
Provisions	(23,704,078)	-	-	(23,704,078)
Current Portion of Long Term Loan	(770,706)	-	-	(770,706)
Payables from non exchange from transactions	(1,178,433)	-	-	(1,178,433)
Provisions	(8,922,810)	-	-	(8,922,810)
Long Term Loan	(4,436,079)	-	-	(4,436,079)
Employee benefits obligations	(665,078)	-	-	(665,078)
Opening Accumulated surplus	(3,621,532,917)	(6,555,175)	-	(3,628,088,092)
	540,564,234	**(5,265,230)**	**-**	**535,299,004**

Notes to the Financial Statements

Figures in Rand	2020	2019

44. Prior period errors (continued)

Statement of financial position

	-	-
Accumulated Surplus		
Fixed assets adjustment		1,848,187
Payables adjustment		4,837,269
Correction of Receivables from Non Exchange Transactions		(130,282)
		6,555,174

44. Prior period errors (continued)

General expenses

The municipality conducted a search for unrecorded liabilities for the year ended 30 June 2019 to ensure that all transactions for the year had been fully accounted for . The search showed that transactions of general expenditure nature totaling R2 020 412 had been omitted and these were duly accounted for by way o prior period adjustment.

Depreciation

The municipality reviewed the useful lives for some of its assets that had carrying values of zero. This resulted in the downward revision of the depreciation charge of the previous year by R991 358. In addition the municipality also capitalised projects that had been finished in the previous period but had not been capitalised. This resulted in addition depreciation charge of R4 148 366.52. Overally depreciation was adjusted by R 3 157 123.93

Payables from exchange transactions

A review of the retentions register revealed that certain of the amounts had actually been released earlier on but had not been derecognised thus overstating the municipality's payables. The removal of the said amounts from the retentions register resulted in a downward movement of the retentions by R6 574 601. A review of the creditors accrual also revealed that 3 suppliers had not yet provided the services that they had been credited for. These were duly reversed resulting in a downward movement of R6 904 056. On the other hand, the search for unrecorded liabilities resulted in fresh accruals of R3 542 329 being raised. The net effect of this was a downward movement of payables by R9 936 329.

Vat Receivable

The reversal of invalid retentions from the retentions register resulted in the removal of the associated vat on retentions resulting in VAT going down by R1 585 369

Receivables from non exchange transactions

Two balances due from overpaid contrators had beed recovered in prior periods but the recovery had not been credited to the debtors which continued to be reflected as outstanding. This has now been corrected which resulted in a downward revison of the figure by R374 653

Property plant and equipment

A review of the accruals listing for last year revealed that two transactions that been accrued for despite the fact that the invoices that had been received were latter on cancelled. The items were for work in progress. The items were reversed resulting in a downward revison of PPE by R6 686 362. In addition, the municipality also capitalised projects totalling R56 067 574 which had remained under assets under construction despite them being completed. I

Accumulated surplus

The correction of the error on the retentions balance was credited to the accumulated surplus and the amount involved was R5 706 000. Some previously unaccrued liabilities were identified and duly charged to accumulated surplus totalling R869 000. The backdated revision of depreciation of certain assets resulted in a gain of R1 571 381.16 000 which was credited to accumulated surplus.In addition, the capitalisation of previously completed assets which had remained uncapitalised resulted in backdated depreciation charge of R3 186 656.54 which was charged to the accumulated surplus vote. The net effect of all these transactions was R6 555 175 adjustment on accumulated surplus.

Figures in Rand	2020	2019

44. Prior period errors (continued)

45. Risk management

Financial risk management

The municipality's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk.

The municipality's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the municipality's financial performance.

Liquidity risk

Liquidity risk is the risk encountered by an entity in the event of difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset .

Liquidity risk is mitigated by approving cash funded budgets at all times to ensure commitments can be settled once due over the long term. The municipality also monitors its cash balances on a daily basis to ensure cash resources are available to settle short term obligations.

The following balances are exposed to liquidity risk:

30 June 2020		Payable within 1 year	Payable in 2 to 5 years	Payable after 5 years	Total
Annuity loans	-	6,761	-	-	6,761
Payables from exchange transactions	-	168,266,089	9,603,000	-	177,869,089
	-	**168,272,850**	**9,603,000**	**-**	**177,875,850**

30 June 2019	Payable within 1 year	Payable in 2 to 5 years	Payable after 5 years	Total
Annuity loans	770,706	3,004,590	1,431,489	5,206,785
Payables from exchange transactions	108,284,757	8,922,810	-	117,207,567
	109,055,463	**11,927,400**	**1,431,489**	**122,414,352**

45. Risk management (continued)

Credit risk

Credit risk consists mainly of cash deposits, cash equivalents, derivative financial instruments and trade debtors. The municipality only deposits cash with major banks with high quality credit standing and limits exposure to any one counter-party.

Trade receivables comprise a widespread customer base. Management evaluated credit risk relating to customers on an ongoing basis. If customers are independently rated, these ratings are used. Otherwise, if there is no independent rating, risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the board. The utilisation of credit limits is regularly monitored. Sales to retail customers are settled in cash or using major credit cards. Credit guarantee insurance is purchased when deemed appropriate.

Financial assets exposed to credit risk at year end were as follows:

Financial instrument	2020	2019
Long Term Investment	8,727,587	8,022,159
Receivables from exchange transactions	57,103,253	53,771,397
Receivables from Non Exchange Transaction	4,101,231	691,100
Cash and Cash Equivalents	578,014,620	282,497,181
VAT Receivable	10,057,662	19,678,934

Cash and Cash equivalents and Non Current Investments
Deposits of the municiapality only held at reputable banks that are listed on the JSE. The credit quality is regularly monitored through required SENS releases by various banks. The risk pertaining to these deposits are considered to be very low.

There are no restrictions on the cash deposits held and no cash were pledged as security. No collateral is held for any cash and cash equivalents.

Receivables

Receivables comprise of a large number of users, dispersed across different sectors and geaographical areas. On-going credit evaluations are performed on the financial condition of these receivables. Credit risk pertaining to recievables are considered to be moderate due to the diversified nature of receiavbles and immaterial nature of individual balances. In the case of consumer debtors the municipality effectively has the right to terminate services to customers but in practice this is difficult to apply. In the case of debtors whose accounts become in arrears, council endeavours to collect such accounts by "levying of penalty charge", applicable in terms of Council's Credit Controland Debt Collection Policy.

Receiavbles disclosed after taking into account the provision for impairment raised against each class of receivable.

Receivables are payable within 30 days. All receivables are outstanding for than 30 days are considered to be past due. Refer to note 6 for more information regarding the provision for impairment raised against each service type as well as receivables considered to be past due.

No receivables were pladged as security for liabilities and no collateral is held from any consumers (other than consumer deposits)

The following service receivables are considered past due (more than 30 days outstanding)

Water	125,680,953	120,047,796
Sewerage	19,020,091	18,219,894
Other	2,131,557	3,223,842
	146,832,601	**141,491,532**

45. Risk management (continued)

Long Term Receivables are disclosed after taking into account any provision for impairment raised against the outstanding balance. Each outstanding balance is individually assessed for impairment.

No receivables were pledged as security for liabilities and no collateral held from any of the counterparties.

Market risk

Interest rate risk

Interest Rate Risk is the risk that the fair value of future cashflows associated with a financial instruments will fluctuate in amount as a result of market interest changes.

Financial Assets and liabilities that are sensitive to interest rate risk are cash equivalents, investments, and loan payables. The municipality is not exposed to interest rate risk on these financial instruments as the rates applicable are fixed interest rates.

Potential concentrations of interest risk consist mainly of fixed deposits investments, long term debtors, other debtors,short term investments deposits and bank and cash balances.

The municipality limits its counterpart exposures from its money market investments operations by only dealing with well-established financial institutions of high credit standing. The credit exposure to any single counterpart is managed by setting percentage exposure limits , which are included in the municipality's investments policy. These limits are reviewed periodically by the Chief Financial Officer and authorised by the council.

The following balances are exposed to interest rate fluctuations:

	2020	2019
Cash and cash equivalents	578,014,620	282,497,181
Non Current Investments	8,727,587	8,022,159
Net Balance Exposed	**586,742,207**	**290,519,340**

	2020	2019
Potential effect of changes in interest rates on surplus and deficit fo the year/period		
1% increase in interest rates	5,867,422	2,905,193
1% decrease in interest rates	(5,867,422)	(2,905,193)
	-	-

Sensitivity analysis
Financial assets.
At 30 June 2020, If the weighted average interest rate had been 100 points basis higher, with all other variables held constant, the fair- value impact on the financial performance would have been R5.8 million with the opposite effect if the interest rate had been 100 points basis lower.
The sensitivity analysis would be performed by dividing the total investment interest earned for the year by the average interest rate earned to give the effect of a one percent movement in interest rates.

Financial Liabilities
Changes in the interest rates as at 30 June 2020 would have had no impact on the statement of financial performance, as all borrowings are at fixed interest rate.

Foreign exchange risk

Currency risk is the risk that the fair value of the future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

The financial instruments of the municipality is not directly exposed to any currency risk..

Figures in Rand	2020	2019

45. Risk management (continued)

Price risk (Market Risk)

Other price risk is the risk that the fair value or future cashflows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

The municipality is not exposed to any other price risk.

46. Unauthorised expenditure

Opening balance as previously reported	108,248,302	346,948,870
Less approved by council	-	(238,700,568)
Closing balance	**108,248,302**	**108,248,302**

47. Fruitless and wasteful expenditure

Fruitless and wasteful expenditure	17,840,108	17,826,708
Current year	364	13,400
	17,840,472	**17,840,108**

Incident		
Interest Paid to Eskom	364	5,220
Interest paid MCPF	-	328
Late Payment	-	57
MWRF	-	2,150
Interest paid to Natal Joint Super	-	277
Interest paid to Salaries Pension	-	2,450
Interest paid to Mbizana Local Municipality	-	21
Interest paid to National Health Laboratory Service	-	910
Interest paid to SARS	-	1,987
	364	**13,400**

48. Irregular expenditure

Opening Balance as previously reported	1,322,935,787	1,099,563,249
Correction of prior period error	-	80,845,960
Subtotal	1,322,935,787	1,180,409,209
Irregular Expenditure - Current Year	-	1,510,447
Irregular Expenditure incurred in the current year as a result of prior's year irregular contracts.	85,666,375	141,016,131
	1,408,602,162	**1,322,935,787**

Figures in Rand	2020	2019

48. Irregular expenditure (continued)

Details of irregular expenditure

SCM processes not followed	35,652,807	
Section 32 Regulations not followed	4,356,935	
Declaration of interest not followed	32,930,615	
BEC minutes signed by two members instead of three	1,772,761	
BAC composition not correct	9,374,754	
Tender not advertised	1,578,503	
	85,666,375	

49. Additional disclosure in terms of Municipal Finance Management Act

Contributions to organised local government (SALGA fees)

	2020	2019
Opening balance	-	8,786
Current year subscription / fee	2,694,394	2,705,500
Amount paid - current year	(2,694,394)	(2,714,286)
	-	-

Audit fees

	2020	2019
Opening balance	84,326	84,326
Current year subscription / fee	6,759,048	6,521,719
Amount paid - current year	(6,759,048)	(6,521,719)
	84,326	**84,326**

PAYE and UIF

	2020	2019
Current year subscription / fee	43,626,011	38,997,938
Amount paid - current year	(43,626,011)	(38,997,938)
	-	-

Pension and Medical Aid Deductions

	2020	2019
Current year subscription / fee	29,379,331	25,464,111
Amount paid - current year	(29,379,331)	(25,464,111)
	-	-

VAT

	2020	2019
VAT receivable	10,057,662	19,678,934

VAT output payables and VAT input receivables are shown in note 7.

All VAT returns have been submitted by the due date throughout the financial year.

Figures in Rand	2020	2019

49. Additional disclosure in terms of Municipal Finance Management Act (continued)

Deviations Authorised

In terms of section 36 of the Municipal Supply Chain Management Regulations any deviation from the Supply Chain Management Policy needs to be approved/condoned by the Municipality Manager and noted by Council.

Incident		
Phiko Security - Impossible to advertise due to security threat	71,404	-
Lok Consulting- Emergency due to Covid outbreak	126,960	-
Ronauna- Emergency due to Covid outbreak	165,140	-
Ntuts Enterprise- Emergency due to Covid outbreak	72,000	-
Anforcept Trading Enterprise- Emergency due to Covid outbreak	82,800	-
Ntuts Enterprise- Emergency due to Covid outbreak	63,000	-
Anforcept Trading Enterprise- Emergency due to Covid outbreak	74,250	-
Ntuts Enterprise- Emergency due to Covid outbreak	36,000	-
Anforcept Trading Enterprise- Emergency due to Covid outbreak	41,400	-
Middleman- Emergency due to Covid outbreak	216,000	-
Middleman- Emergency due to Covid oubreak	36,000	-
Alfred Nzo Community Radio- Emergency due to Covid outbreak	165,000	-
Alfred Nzo Community Radio- Emergency due to Covid outbreak	110,000	-
Teo Pushing Forward- Emergency due to Covid outbreak	1,545,600	-
Molathile Trading and Projects- Emergency due to Covid outbreak	37,950	-
Mpoetsi Tsuputsi- Emergency due to Covid outbreak	40,000	-
Amathusi Investment- Emergency due to Covid outbreak	884,000	-
Doc Lia Trading- Emergency due to Covid outbreak	886,940	-
Alpha and Omega- Emergency due to Covid outbreak	50,000	-
Nice Things Decor- Emergency due to Covid outbreak	82,934	-
SABC Umhlobo Wenene- Emergency due to Covid outbreak	81,144	-
Winsko Projetcs- Emergency due to Covid outbreak	861,351	-
Teo Pushing Forward- Emergency due to Covid outbreak	1,270,145	-
ICT Choice- Emergency	947,530	-
Tumwine Construction- Emergency due to Covid outbreak	94,900	-
Zinzame Consulting- Emergency due to COVID outbreak	5,000,000	-
JNT Consulting JV Nageni Civils- Emergency due to COVID outbreak	8,400,000	-
Masilakhe/ Olon JV- Emergency due to COVID outbreak	8,300,000	-
Gilgal Consulting- Emergency due to COVID outbreak	6,500,000	-
Ntsizwa Guest House- Could not obtain quotations due to lockdown	26,400	-
Kude Investment Holding- Emergency due to security threats	-	125,000
NMI Durbam South Motors - Impractical to advertise due to stripping	-	67,829
NMI Durban- Impractical to advertise due to stripping	-	30,178
Thopmson Commercial Vehicle	-	40,108
Travel Start- Only one service provider	-	4,586
NMI Durban South Motors- Impractical to sdvertise due to stripping	-	21,286
Bates and Johnstone Motors	-	206,087
Roal Investment Holding- Impractical to advetise due to stripping	-	34,055
Roal Investment Holding- Impractical to advertise due to strippping	-	30,046
NMI Durban South- Impractical to advertise due to stripping	-	111,890
Thompson Commercial Vehicles- Impractical to advertise due to stripping	-	113,514
Sekumhlaba Health Promotion- Impractical to get three quotes	-	19,200
Optron- Only service provider	-	7,475
Roal Investment Holdings- Impractical to get three quotations	-	11,306
Roal Investments Holdings-Impractical to advertise due to stripping	-	62,200
NMI Mercedes Benz- Impractical to advertise due to stripping	-	130,258
NMI Mercedes Benz- Impractical to advertise due to stripping	-	68,304
SABC - State owned company	-	287,500
NMI Mercedes Benz Durban- Impractical to advertise due to stripping	-	69,083
Kokstad Locksmith- Emergency	-	8,062
Kokstad Locksmith- Emergency	-	2,674
Avis Car Hire- Emergency	-	26,674
Dop Dop Security threat- Emergency due to security threat	-	137,222

Figures in Rand	2020	2019

49. Additional disclosure in terms of Municipal Finance Management Act (continued)

Opinianated Trading enterprises- Emergency due to theft at satelite offices	-	156,050
	36,268,848	**1,770,587**

In addition to the above, the municipality could also not follow its SCM procedures for the below listed service providers. Initially, the municipality invited bids for the repairs and maintenance from interested suppliers. However, nobody qualified hence the municipality resorted to section 36 to pick service providers.

1) Iveco- Port Shepstone
2) Tryes and More - Kokstad
3) Dericks Engineering- Kokstad
4) Capital Panel Beaters- Kokstad
5) Johnson Delta- Kokstad
6) Isuzu Trucks- Port Shepstone
7) TFM - Durban
8) Ian Dicke & Co (Pty) Ltd- Pine Town
9) Thompson Motors - Shelly Beach

50. Covid - 19 Disclosure

On 15 March 2020, President Cyril Ramaphosa announced the declaration of a state of national disaster following the World Health Organisation declaration of the Covid-19 outbreak as a pandemic as well as measures that must be implemented in South Africa

On 18 March 2020, regulations under the Disaster Management Act, 2002, regarding steps to prevent an escalation of the disaster or to alleviate, contain and minimise the effects of the Disaster were gazetted in Government Notice No.318 of 18 March 2020, as amended and substituted from time to time (the DMA regulations).

Regulation 9 of the DMA Regulations provides that emergency procurement for institutions is subject to-
a) the public Finance Management Act, 1999 (Act No. 1 of 1999), and the applicable emergency provisions in the Regulations or Instructions made under section 76 of that Act; and
b) The Municipal Finance Management Act, 2003 (Act No, 56 of 2003), and the applicable emergency provisions in the Regulations made under the Act.

Accounting officers of the municipalities and municipal entities may deviate from inviting competitive bids in cases of emergency in terms of regulation 36 of the Municipal Supply Chain Management Regulations read with the Municipal Supply Chain Management policies. This does not require National Treasury approval. The Covid 19 pandemic is a situation that justifies the use of emergency procurement provisions

The emergency procurement provisions provide for accounting officers to procure the required goods or services by other means, such as price quotations or negotiations. The reasons should be recorded and approved by the accounting officer or his/her delegate.